Transnational Corporations in World Development

Third Survey

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Third Survey

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Explanatory notes

The following symbols have been used in the tables in this document:

Three dots (...) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where there are no data available for any of the elements in the row.

A blank in a table indicates that the item is not applicable.

A dash (-) or a zero (0) indicates that the amount is nil or negligible.

A slash (/) indicates a crop year or financial year, e.g. 1980/81.

Use of a hyphen (-) between dates representing years, for example, 1979-1981, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons and to "dollars" ($) United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals because of rounding.

References to Re-examination refer to Transnational corporations in world development: a re-examination (E/C.10/38), United Nations publication, Sales No. E.78.II.A.5.

The following abbreviations have been used:

ASEAN	Association of South East Asian Nations
CMEA	Council for Mutual Economic Assistance
COMEX	New York Commodity Exchange
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
ECLA	Economic Commission for Latin America
EEC	European Economic Community
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
IBA	International Bauxite Association
ILO	International Labour Office

IMF	International Monetary Fund
LME	London Metal Exchange
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization

The term "country" as used in the text of this document also refers, as appropriate, to territories or areas.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

For analytical purposes, the following country classifications have been used:

Socialist countries:	China, Eastern Europe and Union of Soviet Socialist Republics
Developed market economies:	North America, Southern and Western Europe (excluding Cyprus, Malta and Yugoslavia), Australia, Japan, New Zealand and South Africa
Developing countries:	Latin America and the Caribbean, Africa (other than South Africa), Asia (excluding Japan), Cyprus, Malta and Yugoslavia

The designations of country groups in the text and the tables are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

Preface

In 1973, the United Nations Secretariat prepared a report entitled Multinational Corporations in World Development. 1/ At its second session, the Commission on Transnational Corporations requested the United Nations Centre on Transnational Corporations to prepare an integrated study of the operations and practices of transnational corporations as a sequel to the earlier study. 2/ At its fourth session, in May 1978, the Commission considered the report prepared pursuant to that request, entitled Transnational corporations in world development: a re-examination. 3/ At that time, the Commission decided that the Centre should submit a further comprehensive integrated study to the Commission in 1983. 4/ The present report has been prepared by the United Nations Centre on Transnational Corporations in response to that decision and to facilitate the work of the Commission at its ninth session.

1/ United Nations publication, Sales No. E.73.II.A.11.

2/ Official Records of the Economic and Social Council, Sixty-first session, Supplement No. 5 (E/5782), para. 26.

3/ United Nations publication, Sales No. E.78.II.A.5.

4/ Official Records of the Economic and Social Council, 1978, Supplement No. 12 (E/1978/52), para. 44.

Chapter I

TRANSNATIONAL CORPORATIONS IN WORLD DEVELOPMENT: AN OVERVIEW

A. The deterioration of the economic environment

1. In consequence of the collapse of the Bretton Woods system of fixed exchange rates and its replacement by a régime of floating rates, the emergence of huge imbalances in international payments accompanied by steep and abrupt changes in the terms of trade between groups of countries, increasing and persistent inflation and unemployment, and the loss of forward momentum in world production and trade, a period of growing uncertainty and instability began in the world economy in the mid-1970s.

2. In the developed market economies, aggregate output had grown at an average rate of just over 5 per cent per year in the 1960s, and inflation and unemployment had been at relatively low levels. Between 1974 and 1980, however, the rate of real growth declined to an average of 2.5 per cent per year. Moreover, the pattern of annual growth became irregular - total output actually fell in 1975, and, after recovering in 1976-1978, the growth rate declined to just over 1 per cent in 1980, remaining at that level in 1981. Preliminary estimates for 1982 indicate zero growth for the year. This slackening growth since the mid-1970s was accompanied by an upsurge in rates of unemployment and inflation. By the end of 1982, there were well over 30 million unemployed in the OECD countries, equivalent to over 9 per cent of their labour force. Rates of inflation, which had averaged only 4.5 per cent per year in the 1960s, rose to 10.6 per cent per year in 1973-1975; despite some decline thereafter, inflation rates remained high by historical standards. The desire to curb inflationary pressures led to the adoption of strong restrictive monetary policies by governments of developed countries, pushing up interest rates to exceptionally high levels and slowing down business activity.

3. These developments were reflected in a pronounced decline in world trade growth, including the demand for imports from developing countries, one manifestation of which was the collapse of commodity prices. The impact of the recession on the exports of developing countries was magnified by protectionist restrictions in industrial countries. The rate of growth of the volume of international trade declined from an average of 8.4 per cent per year in the 1960s to 6.3 per cent in the 1970s. World trade, which grew by about 2 per cent in 1980, declined in 1981 and 1982. Export performance and movements in terms of trade differed markedly as between the developed market economies, oil-exporting developing countries, and middle-income and low-income oil-importing developing countries. The oil-exporting developing countries experienced a twofold increase in the purchasing power of their exports during the 1970s. The developed market economies were able to counter the effects of the first round of oil-price increases by expanding the volume of their exports and through the rising prices of their manufactured exports: in the second half of the 1970s, their export volume grew at 8.4 per cent per year and their average export prices rose by 9 per cent per year. The middle-income oil-importing developing countries were also able to expand their exports vigorously - their export volume almost doubled in the 1970s - and there was a slight improvement in their terms of trade. The low-income oil-importing developing countries fared very badly, however: their export volume increased by less than 50 per cent during the 1970s, and the effect of more than half of this increase was neutralized by a deterioration in their terms of trade,

owing not only to oil price increases, but also to increases in the prices of other imports, including foodstuffs and manufactures. Partly as a result of these developments, the growth rate of output of the developing countries as a group decreased from an annual average of 5.1 per cent during 1976-1979 to 2.7 per cent in 1980, about 1 per cent in 1981 and is estimated to be about zero in 1982. 1983 is likely to be the third consecutive year of declining per capita income for developing countries as a whole and the fourth such year for most of the low-income countries.

4. The socialist countries of Eastern Europe did not escape the consequences of what was happening in the rest of the world economy. In the second half of the 1970s, the average annual growth rate of their national income was 5.4 per cent, as compared to 6.3 per cent in the first half. During the same period, rates of growth of investment and exports and imports in these countries declined below those in the first half and there was a further slackening of activity in 1981 and 1982. Some of the causes were internal, including a series of poor harvests, a deceleration in the growth of over-all labour supply, and bottlenecks in transport, power generation and the primary-goods sectors. For the relatively more trade-dependent economies of Eastern Europe, however, some difficulties were the result of balance-of-payments constraints caused by the slowing down of their exports to developed market economies and the onerous burden of their debt-service obligations caused mainly - though not exclusively - by high interest rates in international capital markets. The economic performance of China was affected by austerity measures designed to curb the budget deficit, to slow down the rate of increase in retail prices and to reduce the external deficit.

B. Growth and diversification of transnational corporations

5. During the 1970s, the foreign operations of transnational corporations gained in importance compared to their domestic operations. Transnational corporations have continued to expand their activities abroad - faster, in fact, than at home, as is shown both by company-level data and by aggregate data.

6. At the company level, a sample of the largest transnational corporations shows that foreign activities increased in relation to domestic operations during the period 1971-1980. For these companies as a group, the ratio of sales by foreign affiliates to total sales rose from about 30 per cent in 1971 to about 35 per cent in 1976, and to about 40 per cent in 1980. This evidence suggests that the activities of such corporations have become more transnational, a trend that is broad-based across industries and countries. It is a development that reflects, first and foremost, the growing cross-currents of investment among industrialized countries and the growing globalization of production, whereby production units are located in areas that are most advantageous from the standpoint of the over-all costs for the corporations involved. The transnationalization of production may gain momentum under conditions of intensifying protectionism as well, since protectionism creates its own kind of incentive for the relocation of production (as is evidenced particularly by a number of investments by Japanese transnational corporations in the United States and Western Europe).

7. This picture is corroborated, to a certain extent, by data concerning the flows of foreign direct investment up to the early 1980s. In spite of the recession, outflows continued to increase, albeit at a slower rate than in the past, but faster than domestic investment expenditures in home countries and more

slowly than domestic investment expenditures in developing countries. The rate of growth of flows of foreign direct investment to developing countries (in the region of $11 billion per annum in 1978-1980) was higher than the rate of growth of these flows among developed market economies (which amounted to some $26 billion per year between 1978 and 1980).

8. Available data show that a certain diversification in both the origins and destinations of foreign direct investment flows has taken place. Over 95 per cent of recorded flows continue to originate in the OECD area and about three-quarters of the flows are channelled to other OECD countries. Within this area, however, a notable change had occurred by the end of the 1970s. The United States share of the total outflow had dropped to less than a half, compensated for especially by higher shares accounted for by outflows from Canada, the Federal Republic of Germany and Japan. At the same time, the United States share in inflows has increased to about one third, making this country the largest recipient as well as the largest source of foreign direct investment.

9. Among recipient developing countries, a high degree of concentration continued to prevail, six of them accounting for between 50 and 75 per cent of all inflows. However, the majority of developing countries - and especially the low-income countries - have not attracted substantial amounts of capital and technology flows; a parallel pattern is found in transnational bank lending, in that the same countries have also benefited little from the massive lending that has taken place during recent years. Thus, the contribution of transnational corporations to the strengthening of the industrial and technological capabilities, as well as export growth, of developing countries has on the whole bypassed those that need foreign resources most - the world's poorer countries.

10. Transnational corporations have played an important part in economic relations between socialist countries and market economies. The second half of the 1970s and the beginning of the 1980s saw two major trends affecting these relations in a contradictory manner. On the one hand, owing to their long-term interest in stimulating capital-intensive production, improving labour productivity and meeting the growing needs of their population, the socialist countries were striving for more active participation in the international division of labour in which transnational corporations play a role. On the other hand, the slow-down of world economic activity, protectionist measures and balance-of-payments constraints hampered the expansion of industrial co-operation arrangements. The consequence was a general slackening of the expansion of industrial co-operation agreements and a change in their composition. In particular, product buy-back and counter-purchase arrangements became more and more common as from the early 1970s and, by the beginning of the 1980s, probably accounted for the majority of reciprocal trading arrangements between East and West in value terms. However, industrial co-operation in a more limited sense - in the form chiefly of licensing and co-production agreements - declined after 1978-1979 in value terms, mostly because the slackening exports and the debt-servicing obligations of some socialist countries created a scarcity of the convertible currency required to buy needed supplies. A major event was China's decision to admit transnational corporations in sectors considered relevant to its modernization programme.

11. It is also noteworthy that transnational corporations based in developing countries increased in numbers, although as yet most of these corporations are of comparatively small size. One source of strength of these corporations, which are mostly active in manufacturing in other developing countries, might well be that

they supply technologies better adapted to the relative factor costs in developing countries and that, therefore, they offer certain advantages to other developing countries.

12. Measuring the growth of transnational corporations by reference to their equity in foreign enterprises underestimates their importance because such measurements do not take into account non-equity arrangements concluded by them, such as licensing agreements, sub-contracting, turnkey projects, management and marketing contracts, co-production agreements, and so forth. It should be noted, however, that operational control under such contractual arrangements is often given, explicitly or implicitly, to transnational corporations. A number of host countries - aided by the increasing industrial and entrepreneurial capabilities of their locally owned enterprises - have adopted a policy of requiring greater national participation in the ownership of affiliates in order to reap the benefits associated with such participation. For transnational corporations, on the other hand, non-equity arrangements can be attractive because they enable them to reduce their exposure to risk, while earning satisfactory returns on their technological, managerial and marketing assets. Sketchy as the data are concerning the actual importance of non-equity forms, these arrangements have certainly expanded in recent years.

C. The rise of transnational bank lending

13. The rise in oil prices during the 1970s produced large surpluses in the hands of oil exporters, which sought immediate investment outlets. These surpluses were matched by deficits of oil-importing countries. Since there was general agreement at that time that the rise in oil prices should not be allowed to lead to general deflation, the deficit countries were in need of large-scale balance-of-payments support. Under the Bretton Woods system, the primary responsibility for giving such support was that of multilateral institutions, but the resources of the International Monetary Fund were not commensurate with the magnitude of the imbalances encountered, despite some innovative steps taken to enhance the Fund's financing capabilities.

14. In these circumstances, transnational banks became the principal channels for recycling the surplus funds deposited with them by oil exporters to a select number of deficit countries, including a few of the more advanced developing, as well as socialist and industrial countries. During the 1970s, countries that had gained access to the syndicated lending facilities of commercial banks regarded these facilities as offering considerable advantages. While the cost of borrowing from commercial banks was relatively high, a more than compensating advantage was, for many countries, the fact that loans from commercial banks left the borrowers with a greater degree of freedom of action in carrying out the economic policies of their choice than would otherwise have been possible.

15. As a result, the claims of commercial banks on developing countries, which amounted to $89 billion at the end of 1975, had risen to $299 billion by the end of 1980 and reached $362 billion by mid-1982. At the turn of the decade, furthermore, maturities had shortened substantially and the majority of loans were at floating rates of interest which, at that time, reached record levels. Under these conditions, and because of declining exports, the capacity of many developing countries to service their debt was seriously threatened. The result is a debt crisis so severe that its implications reach far beyond the activities of

transnational banks; indeed, a general crisis of confidence in the international financial system threatens.

16. A notable feature of the international debt situation is the very high concentration of borrowing: four relatively advanced developing countries - Argentina, Brazil, Mexico, the Republic of Korea - account for more than half of the total outstanding loans of private banks to non-OPEC developing countries and for some 85 per cent of the net debt subject to floating interest rates. Most low-income developing countries, on the other hand, received only a small share of such finance and, therefore, hardly benefited from the expansion of bank lending.

17. In the early 1980s the external environment deteriorated further. Balance-of-payments pressures mounted, debt-servicing capabilities were sharply reduced by the slow-down in exports to the industrialized countries on account of the recession and growing protectionism, interest rates reached record levels and the deterioration of the economic outlook in debtor countries gave rise to considerable reluctance on the part of banks to maintain their lending to these countries at previous levels, let alone to expand it. At the same time, it became apparent that, if banks sought to reduce their commitments to the debtor countries, they would compound the difficulties they were experiencing, thereby increasing the very danger that they were trying to prevent, namely the spread of default.

18. The precariousness of the situation called for a greater involvement of the principal institution for the provision of official balance-of-payments support, the International Monetary Fund. Commercial banks increasingly imposed the condition, especially in rescheduling operations, that borrowers must reach agreement with the Fund in order to qualify for the banks' support. In February 1983, agreement was reached on an expansion of the resources of the Fund and hence a strengthening of its role in maintaining international financial stability. It seemed clear, however, that while abrupt changes in the lending policies of the commercial banks would probably be avoided, the factors prompting greater caution on their part would probably persist, at least for a time. Total flows to low-income countries, moreover, seemed likely to remain inadequate.

D. The international division of labour, redeployment and industrialization

19. The continued expansion of transnational corporations is in part a response to the differential availability of factor endowments and market opportunities in various countries. By relocating industries and assisting in the establishment of industrial capacities in developing countries, these corporations are in a position to contribute to a more rational international division of labour.

20. However, the redeployment of resources across national boundaries is also influenced by a number of forces other than factor endowments and market opportunities. Factor endowments themselves are dynamic and change over time, especially under the impact of changing technologies. Second, regulatory frameworks established by Governments wishing to protect or develop their own countries' economies or to increase their share of the benefits associated with the activities of transnational corporations influence the flow of capital and technology and related activities, such as trade; performance requirements, discussed below in greater detail, have received considerable attention in this connection in recent years. Third, and perhaps most importantly, forces internal

to corporations, especially aspects of industrial organization, may influence the manner in which comparative advantages are utilized. Organizational and corporate considerations, such as commitments to the existing location of plant and equipment, tendencies to establish internationally integrated production processes, economies of scale and the internalization of international economic transactions may be decisive.

21. The importance of the last of these factors lies in the fact that a considerable proportion of various international transactions is internalized by transnational corporations in a combination of foreign direct investment, technology, finance and trade flows. Thus, a good many transfers of technology take place between parent corporations and their foreign affiliates, and in such cases the technology does not necessarily leave the corporate system. For example, on average, 78 per cent of the fees and royalties received annually by United States corporations came from affiliated companies during 1970-1972, a percentage that increased to 81 per cent during 1979-1981. Similarly, part of the intra-firm capital transfers is generated internally by the earnings of transnational corporations, or provided by in-house finance corporations or made available by banks which, in some countries, are closely connected with industrial enterprises.

22. Lastly, a considerable proportion of trade transactions has come to be internalized. To begin with, a very large share of trade is generated by transnational corporations; in the case of the United States, for instance, this share was over 90 per cent in 1977, and in the case of 1977 exports of the United Kingdom it was 80 per cent. Again, according to United States data, the intra-firm trade of majority-owned foreign affiliates of United States transnational corporations increased from 19 per cent of total trade in 1966 to 22 per cent in 1977; if minority-owned affiliates and non-United States transnational corporations are added (i.e., total intra-firm transactions), 39 per cent of imports and 36 per cent of exports of the United States were intra-firm transactions in 1977. Similarly, 29 per cent of the exports of the United Kingdom were accounted for by intra-firm trade in 1976, and the share rose to 31 per cent in 1980. Since arm's-length prices do not exist for many of the products forming the subject of intra-firm trade, the prices at which these products are transferred are set in the light of considerations internal to the company concerned.

23. Current modes of thinking and analysis have not yet absorbed the full implications of the fact that a large proportion of various international economic transactions takes place within transnational corporations. Since these transactions are somewhat insulated from market forces and may be less responsive than other transactions to changes in aggregate demand, prices, exchange rates and government policies, internalization has implications for the distribution of the gains from economic exchanges, the efficient allocation of world resources and relations between Governments and transnational corporations. Intra-firm transactions are of particular concern to developing countries, since special capabilities are required to regulate and monitor pricing methods used in these exchanges so as to secure the appropriate level of tax revenues and foreign-exchange receipts.

24. Developing countries are anxious to accelerate economic development and are, therefore, unwilling to contemplate an international division of labour that is cast in static terms and founded on existing divergences in capital stock, levels of skills and income as between developed and developing countries. Nor can they assume that the operations of transnational corporations will yield a volume or

pattern of industrial growth that would measure up to their aspirations. For them, it is important that the principle of comparative advantage should be interpreted in a dynamic sense, that is, in a manner that recognizes that while developing countries may not be able as yet to produce efficiently by world standards in a particular industry, they may reasonably be expected to do so within the foreseeable future. And this in turn implies a need for Governments to supply additional stimulus and guidance to the growth process.

25. In certain industries some developing countries have already reached a position in which their comparative advantage is well established even in conventional static terms. In the manufacturing sector, this has occurred mainly in labour-intensive production with standardized technology, such as textiles, clothing and shoes, where cheap labour in developing countries constitutes an important factor advantage. Low labour costs, particularly in export processing zones in the South-East Asian region, have attracted considerable foreign direct investment in industries (especially electronics) producing components of high-technology products. In addition, a few developing countries have become competitive in such industries as steel, electrical and non-electrical machinery and transport equipment.

26. The competitiveness of a number of developing countries in these industries is attested to by the success of the newly industrializing countries in achieving a rapid growth in exports to developed countries during the 1970s. In several of these countries, transnational corporations were able to help in breaking down some of the barriers that had in the past prevented the countries concerned from seizing the opportunities offered by their manufacturing capacities. However, only part of the gains in this area can be credited to transnational corporations since, in most countries, domestic enterprises played a role at least equal to that of transnational corporations and in some the role of these corporations was of minor or even negligible significance. Over-all, however, it is clear that in many of the developing countries which have achieved impressive industrial growth there was a significant presence of transnational corporations, although it is often not clear which is cause and which is effect or whether the presence of such corporations was more or less important than the growth and performance of indigenous enterprises.

27. Some of the Governments of home countries also have reservations about adjusting to the dictates of comparative advantage as interpreted by transnational corporations since they fear that international redeployment of industries may redound to their disadvantage and could lead, among other things, to the export of jobs. Such fears, voiced particularly by trade unions (and, for reasons of their own, the affected industries themselves), are especially marked during periods of high unemployment. Even in more normal times, there are short- and medium-term problems of adjustment to be faced. Sufficient time is needed to permit retraining and redeployment of labour in response to new market opportunities arising from economic growth.

E. The primary sector

28. Major progress in industrial development and the export of manufactures has been achieved mainly by a relatively small group of developing countries. Most of the developing countries have made much less headway in breaking away from their historical role as producers and exporters of primary products and importers of

manufactures. For many of these countries, therefore, developments in the primary sector continue to be the mainstay of their economic destiny. Among these developments, two stand out: the further decline of new project development and exploration of oil and gas resources by transnational corporations in developing countries, and the end of a phase of nationalizations, after which these countries turned their attention towards participation in downstream activities.

29. The decline of in the efforts which transnational corporations are devoting to the exploration and development of petroleum and gas resources in developing countries is a matter of serious concern not only to these countries but to the international community as a whole. The leading transnational corporations have redirected their investments towards locations that they consider to be least exposed to risk. As a result, seismic prospecting in developing countries fell during the 1970s while corresponding activity in developed countries increased considerably. Similarly, the developing countries' share of exploratory wells drilled fell significantly between 1970-1974 and 1975-1979. Contrary to what might have been expected, therefore, higher oil prices did not result in any speeding-up of exploration efforts in developing countries. Although there is evidence of an increase in such activities following the oil price rise of 1979, it is premature to conclude that the trend evident in the 1970s has been reversed.

30. Faced with this situation, developing countries in a position to do so increased exploration efforts by their State oil companies. Others attempted to attract transnational corporations by offering to enter into risk contracts with them. A third group used aid funds to carry out preliminary geological and seismic surveys in the hope of attracting oil companies to do the drilling. A fourth group, including established oil producers, revised the terms of contracts with oil companies in an attempt to encourage them to continue their exploration activities. Parallel with these efforts, some multilateral institutions, notably the World Bank, offered alternatives to transnational corporations as sources of finance for energy exploration and development, but the funds available from these sources were far below the level of investment requirements of oil-importing developing countries.

31. In the field of solid minerals, there is some controversy as to whether there has been a decline in the share of developing countries in exploration and development activity. One view is that the share has fallen as a result of the perceptions of transnational corporations regarding the stability of operating conditions in developing countries. A contrary view, based in part on the developing countries' increased share in output of the major minerals during the past decade, is that State-owned companies must have conducted a considerable amount of offsetting exploration and development, both on their own and with the technical assistance of transnational corporations. In this context, a number of developing countries have been compelled to turn to international financial markets and multilateral lending institutions to raise the necessary capital for mining exploration and development.

32. The second main development - the end of a phase of nationalizations - concerns control over production and downstream activities and the benefits flowing from it. By the middle of the 1970s, ownership by transnational corporations of facilities producing - and, to a lesser extent, processing - petroleum, natural gas, non-fuel minerals and agricultural export commodities had been reduced to a great extent through nationalizations by host countries. The attention of many of these countries has now shifted to downstream activities - processing, marketing and distribution - in which transnational corporations continue to play a key role.

33. In the fossil fuels sector, most of the major producing countries have acquired either full or majority ownership of domestic production facilities. State oil companies have been established in many developing countries with mandates to participate in the production and sale of petroleum (as well as in exploration and development, as noted above). The over-all share of transnational petroleum corporations in world-wide production outside the socialist countries decreased from 94 per cent in 1970 to 45 per cent in 1979, although many of them retained the right to purchase substantial volumes of oil from State companies in producing countries. As a result, transnational corporations still account for a major share of oil traded internationally. In 1980, 67 per cent of all crude oil produced outside North America and the socialist countries was either produced or purchased by transnational petroleum corporations and trading companies which have retained their leadership in the refining, marketing and distribution of petroleum. Some countries, however, have moved more rapidly towards reducing their reliance on oil companies by establishing their own distribution channels.

F. Trends in policies

34. Within the framework of their basic political and economic philosophies, the policies of developing countries with respect to transnational corporations are in general designed to build up national capabilities and, accordingly, to harmonize foreign capital and technology inflows as far as possible with national priorities. On the whole, recent policies reflect a trend towards balancing the regulation of foreign participation with promotion of such participation and its channelling into specified areas, as well as a trend towards a flexible implementation of policies. As is to be expected, changes in policy have occurred in different ways and to different extents in various countries, depending on a variety of factors. A number of developing countries have traditionally maintained open-door or liberal policies, but have been unable to attract significant investments by transnational corporations because of the small size of their markets or limited natural resource endowments; although their efforts to attract foreign investment continue, they have seen no reason to make material changes in their policies. On the other hand, there are a number of countries that had established control-oriented regulatory mechanisms in the early 1970s and that continue to offer lucrative domestic markets, natural resources or other inducements to foreign investors. Recent trends in such countries show a considerable liberalization of policies towards transnational corporations and flexibility in the implementation of regulations, although in most cases the changes have been gradual and evolutionary in nature. There is yet another group of developing countries, including some socialist countries, whose current policies represent a reversal of a previous restrictive approach towards foreign investment. Furthermore, the relaxation of policies varies in nature and in scope. In some countries, the relaxation has been wide-ranging, while in others it has been selective and applied to specific sectors or objectives.

35. Many host countries place increasing emphasis on channelling foreign capital and technology flows into priority areas. This policy has often been accompanied by the provision of investment incentives, on the one hand, and the stipulation of appropriate performance requirements, on the other. Over-all, there has been a growing awareness that the benefits accruing to the national economy and national bargaining strength rest upon the building-up of national industrial, entrepreneurial and technological capabilities. The transfer of technology and the training of nationals are increasingly being regarded as important contributions to

be made by foreign enterprises, and the screening and evaluation of technology-transfer arrangements are being initiated or strengthened in a number of developing countries. At the same time, specific policies and programmes have also been adopted in many countries to stimulate and support national technological and managerial capabilities. And policies and regulations are being implemented with greater flexibility and sophistication, especially where the potential benefits to the national economy are perceived to be significant.

36. The policies of host countries have evolved in the light of the experience gained in dealing with transnational corporations, the managerial and technological capabilities built up by their own private and public sector enterprises, the growing number of transnational corporations interested in investment opportunities, the wider range of arrangements acceptable to them and the greater responsiveness of transnational corporations to the policies and requirements of host countries. As a result, some developing countries became more confident of their ability to negotiate mutually advantageous business arrangements with transnational corporations. Often, this result was achieved without changing policies in such matters as national ownership, strengthening local technological capabilities, performance requirements and the training and employment of nationals.

37. In resource-based industries, furthermore, particularly petroleum and minerals, national agencies and State enterprises in developing countries have played a much greater role during recent years, with the result that the participation of transnational corporations has taken new forms, often consisting of contractual arrangements tailored to specific circumstances. In the manufacturing sector, transnational corporations have become more active in a number of developing countries with large internal markets or other advantages. Increased national ownership has continued to be a major objective, pursued in some countries through comprehensive indigenization programmes, although a fairly flexible and pragmatic approach has been adopted by most host countries in this regard both at the entry level and in respect of phased divestment of foreign-majority holdings.

38. One of the principal reasons why certain developing countries have changed their policy in the sense of greater liberalization would appear to be that they have to contend with economic strains. Severe balance-of-payments problems, stagnant economic growth, deterioration in the terms of trade, and the sharp escalation of external debt-servicing burdens, aggravated by the recession and protectionism in the industrialized countries, have impelled developing countries to review their policies. The critical deficit position of most developing countries has compelled them to turn to transnational corporations as a possible source of capital flows and to liberalize the terms and conditions for the inflow of foreign investment and technology.

39. But the trend towards liberalization has not been an unmixed one. Some countries have been constrained by the pressures generated by the recession to introduce some restrictions particularly as regards foreign exchange outflows and the conditions of technology transfer. Liberalization does not, therefore, necessarily denote a diminution of concern about the possible adverse impact of the operations of transnational corporations on the economies of the countries concerned or a dilution of their long-term objective, which is to become self-reliant and to reduce prolonged dependence on external sources. The new type of co-existence of host Governments and transnational corporations is not likely to prevent such Governments from persisting in their endeavours to increase their

countries' share of gains from these corporations, to overcome foreign exchange and technology constraints, to reduce excessive foreign exchange outflows in the form of royalty fees and dividends, to integrate these corporations' activities with the development of the national economy, to enforce strict performance requirements or to spread the benefits of development. In short, while the conditions governing inward investment may have been liberalized, and confrontations over nationalization may have abated, the Governments of many developing countries remain as convinced as ever of the need to regulate corporate conduct, particularly in the specific areas indicated above.

40. Changing host country policies and international economic conditions are also reflected in recent trends in nationalization. After a sharp rise in the number of nationalization measures during the early 1970s, the number of such measures reached 68 in 1974 and rose further to 83 in 1975. Thereafter, the number of nationalizations declined markedly to an annual average of 16 during 1977-1979, not a few of which appear to have had the consent of the parent corporations because the affiliates concerned were operating at a loss. A number of circumstances contributed to this decline, particularly the fact that many important natural-resource projects had by then been brought into national ownership. But it also appears that host countries had become more sophisticated and more confident of their ability to modify the package of benefits and costs associated with foreign direct investment projects through regulation rather than through outright nationalization.

41. In this connection it may be noted that host Governments have continued their efforts to renegotiate contracts or review foreign investments régimes for the purpose of redistributing benefits accruing from investment projects, particularly in the natural resource sector. Both developed and developing countries have asserted the principle that, as sovereign powers, they are entitled to the bulk of the economic rent generated by natural resource projects, and have accordingly levied windfall or excess profit taxes or renegotiated contractual régimes to impose appropriate limitations on the benefits accruing to transnational corporations by reason of an unexpected escalation of prices or other unforeseen factors. Substantial increases in energy prices have led to the renegotiation of energy-intensive projects, such as fixed-price long-term power contracts with aluminium smelters, uranium contracts and gas contracts.

42. While the initiative in these cases was taken by Governments, a noticeable feature of recent developments in contractual relations is that renegotiation has frequently taken place at the insistence of transnational corporations. Faced with the acute financial pressures generated by the recession, transnational corporations have increasingly secured relief by requesting a major restructuring of their arrangements with Governments. For instance, long-term contracts for the supply of bauxite, copper and iron ore between Australian states and Japan have been renegotiated to take into account the decreased price and demand in the markets for these commodities. Similarly, in Latin America, the previously imposed bauxite levies in Haiti and Jamaica were renegotiated in 1979 at the request of the transnational corporations concerned. In Africa, the copper/nickel Sashe Agreement between the Government of Botswana and a private consortium was renegotiated three times between 1975 and 1982, with the result that the Government's fiscal take was reduced substantially.

G. Sharing the benefits

43. From the point of view of host countries - whether developing or developed - an important objective of government policy is to obtain a larger share of the financial gains to be made and to steer the activities of transnational corporations into the directions desired. However, a host country's gain does not necessarily have to involve a corporation's loss. This is particularly the case for some of the new forms of arrangement that have become more important in recent years.

44. The crucial question is how far the new arrangements have served the interests of the one side or the other - whether, for example, they have enabled host countries to obtain a larger share of the financial gains to be made, and to steer the activities of transnational corporations in the direction desired by them; or whether, on the contrary, they may have enabled the corporations, through their control of upstream or downstream activities, or by other means, to obtain much the same level of returns as they had previously derived from wholly owned subsidiaries, while reducing their capital contribution and exposure to risk.

45. Depending on circumstances, the new arrangements may reflect four quite different scenarios, though these are by no means exhaustive. The first of these implies positive-sum games, the next two zero-sum games, while the fourth involves negative-sum games. The four scenarios have different implications for the answers to the following three questions. First, have total production and productivity increased or have the new forms contributed in other ways to the achievement of policy objectives? Second, what change has occurred in the division of gains between the two sides? Third, has the transfer of ownership to host countries implied in the new forms been accompanied by a corresponding change in control, or has control been maintained by the transnational corporations in a different form?

46. The first scenario represents a situation in which, before the new forms were adopted, the uncertainty of a foreign company regarding the long-run security of its investment prompted it to require and secure above-normal rates of return, so that the investment "paid for itself" within a short period. These high required rates of return, however, led to dissatisfaction on the part of the host developing country and thereby induced precisely those actions by the Government against which the high rates were intended as insurance. The host country may have felt that the company was "taking out of the country more than it was putting in", leading the Government to restrict repatriation of capital and profits, or even to go as far as threatening expropriation of the assets. In this atmosphere of mutual concern, the company's net contribution to development is likely to have been small. New forms of arrangement could bring about concessions on both sides. If the new form involves a reduction of perceived risks, the corporation may be able to lower its required rate of return and take a longer-term view of the business activity in question. The host country may be reassured and hence be able to adopt a more positive attitude towards the corporation. The latter may, for instance, be permitted to move into new sectors and industries that had not previously been open to it. As a result, both parties would gain.

47. In the situation envisaged in the second scenario, the bargaining power of a particular host country increases as a result of improved knowledge and negotiating skills, and of greater competition among transnational corporations. Consequently, a larger share of the gains from the local operations of such corporations accrues to the country. By "unbundling the package", the host country may be able to buy

raw materials and components for industrial projects on more favourable terms. Increased competition among transnational corporations and the entry of new ones, to which the new forms are more congenial, may erode monopoly profits. In this case, not only does ownership shift to the developing country, but control moves with it. The country's gain is the corporation's loss.

48. The third scenario represents the reverse situation. Here the share appropriated by the transnational corporations is not reduced, because they have learned to exploit their advantages in ways other than through 100 per cent or majority ownership. What they cannot obtain in the form of profits, they now secure through fees, contractual arrangements, and administered purchase and sales prices. In the case of joint ventures, transfer pricing of imported inputs enables them to raise their share in the profits above their share in the equity. Their surrender of ownership, control and profits is only superficial. Ownership has been sacrificed, but control and profits are maintained through transactions between affiliates. In fact, the share of the foreign corporations in the division of gains is as great as it was before.

49. In the fourth scenario, a transnational corporation may accept a joint venture arrangement with the greatest reluctance, foreseeing that the alternative would be expropriation by the Government or some other form of drastic intervention. The corporation's involvement continues, but its commitment to the activity in question may be reduced to the bare minimum required to satisfy the authorities. The activity is gradually run down and the corporation's main concern is to extricate itself from a difficult situation and repatriate as much capital as it can. Under these conditions it suffers a loss by comparison with its previous situation and the Government may lose also, since the additional return resulting from the partial transfer of ownership may be more than offset by the fall in taxable income and hence in the Government's "take" in the form of tax revenue.

50. Each of the four possibilities described above may be realized in different countries at different times, or even in one country at the same time in four different industries. In some cases, mutual accommodation leads to gains for both host country and company. In a second set of cases, host countries benefit at the expense of companies, while in a third set companies may maintain or increase their gains at the expense of, or without benefit to, host countries. Finally, conflict may lead to losses on both sides.

51. It should not, however, be assumed that mutual accommodation invariably leads to gains for both parties and conflict to losses. It is not difficult to construct realistic scenarios in which conflict, if held within limits, is associated with gains, and mutual accommodation with losses. As always, circumstances alter cases.

52. The promotion of their own economic interests is not limited to host countries alone. Home countries have become more concerned in recent years about their share in the economic gains associated with the activities of transnational corporations based in their territories. In particular, the possibilities of international tax avoidance and evasion by transnational corporations have received growing attention and have led to such innovative procedures as simultaneous examination programmes, through which transnational corporations are subjected to joint audits by the tax authorities of two or more States.

H. Performance requirements: some concerns

53. Among the specific measures adopted by both developing and developed host countries in pursuit of their objectives, performance requirements have received particular attention in recent years. In host countries, these requirements generally take the form of export obligations, utilization and processing of domestic raw materials, local sourcing of supplies, training of national personnel, localization of manufacturing, full transfer of technical know-how and the setting up of research and development facilities. East-West industrial co-operation agreements also contain performance requirements.

54. A number of home countries screen outward capital and technology flows and impose various requirements that transnational corporations have to meet before obtaining the necessary authorization. Generally speaking, however, home countries seek to maintain an international environment conducive to the free flow of capital and in which foreign affiliates, once established, are protected. The principle of national treatment has received increased attention and, in 1981, formal consultations were held within the framework of the OECD at the request of several countries with regard to certain policies considered to be at variance with this principle.

55. The stipulation of performance requirements by developing countries stems in part from their concerns regarding the operations of foreign affiliates and in part from their objectives to achieve certain national goals. Foreign affiliates tend to be import-intensive as their operations are integrated with those of their parent companies and, unlike the situation in developed countries, linkages to the local economy are frequently less pronounced in developing countries, with the result that domestic value added and employment generation in related sectors tend to be less significant than for domestic companies in the same industries. These problems are complicated by transfer-pricing practices in intra-firm transactions. Apart from these concerns, the building-up of domestic industrial, technological and managerial capabilities and the diversification of the domestic industrial base require the localization and progressive enhancement of manufacturing activities and domestic sourcing of supplies. Excessive or prolonged dependence on external sources for visible and invisible imports or indefinite continuation of unsophisticated stages of the manufacturing process (such as welding, assembling or packaging) are viewed as insufficient for long-term industrial development. In short, developing countries see performance requirements as an important instrument for enhancing their share of the benefits to be derived from foreign participation in their economies.

56. Like protective tariffs or quantitative trade restrictions, performance requirements are applied to promote local infant industries so that they mature and, eventually, become competitive internationally. While there is little controversy about the principle of infant-industry protection and while it is clear that industrialized countries made extensive use of such protection at an early stage of their industrial development, it cannot be assumed that any and all protection can be justified regardless of circumstances. There is evidence that in some cases host countries have sustained losses through excessive protection and local content requirements. Hence, it is generally agreed that infant-industry protection needs to be applied judiciously, and only in cases in which the industry in question has a reasonable chance of becoming viable and able to do without protection within the foreseeable future; and that the amount of protection should not be excessive in relation to the goals to be achieved, and that protection should be gradually phased out as the industry matures.

57. On the other hand, it cannot be taken for granted that performance requirements or incentives necessarily distort the allocation of resources, or cause damage to the interests of other countries. There are many cases in which such measures are designed to correct palpable distortions associated with the existing business environment. For example, foreign affiliates may import more and export less than the free operation of market forces would require. They may import more than they need to despite the existence of cheaper local sources of supply, because of centralized procurement policies, traditional supplier linkages, the resources they had previously committed to plants located elsewhere, and for similar reasons. And they may export less than the competitiveness of a particular affiliate would permit, because of, for example, the requirements of a global company strategy for supplying the world market. If applied in contexts such as these, performance requirements and incentives can have the effect of improving the allocation of resources by bringing it closer to the market optimum and may contribute to the realization of the growing economic potential of host countries.

58. An additional objective of regulations prescribed by a host Government may be to correct for discrepancies between private and social profitability. This would be the case, for example, of regulations to protect the environment or control restrictive business practices.

59. To the extent that some of the issues that arise regarding the distribution of benefits and performance requirements create conflicts of interest between host and home countries, the situation calls for intergovernmental negotiation within the framework of a generally acceptable set of rules. Some of the issues may be dealt with in the context of trade, but many of them call for a more comprehensive examination of the implications of foreign investment and other activities of transnational corporations for relations between host and home countries.

I. The need for internationally accepted standards

60. If relations between Governments and transnational corporations are to evolve in a mutually beneficial manner, it is essential, as a minimum, that the expectations, rights and responsibilities of all sides should be known, understood and respected. It is also important for national policies to be supplemented by international standards. A number of the fledgling efforts to this end begun during the 1970s have either come to fruition or are close to it. Some of these have been undertaken in a regional context; others have been concluded or are being negotiated on specific functional issues.

61. The only instrument that deals with transnational corporations and questions pertaining to them in a comprehensive manner and on a global level is the proposed United Nations Code of Conduct on Transnational Corporations. Its objective is to create a comprehensive international framework covering all important questions related to transational corporations. The effort to formulate the Code of Conduct is inspired by the desire to enhance the positive contribution that transnational corporations can make to the development process and by the realization that such a contribution is possible only if potentially negative aspects of the activities of these corporations are prevented or contained through adherence to national and international norms that seek to harmonize their operations with the development objectives of the countries in which they operate.

62. But the adoption of an appropriate framework or set of standards does not in itself ensure that the potential benefits will in fact be realized and the potential shortcomings avoided. The experience of the 1970s indicates that self-reliant development is entirely compatible with transnational involvement but that countries themselves need to take carefully planned and deliberate steps to that end. In particular, they need a clear and effective strategy for dealing with transnational corporations, for regulating their participation, and for directing their activities into the desired channels. They need to act in solidarity with other host countries to avoid self-defeating competition and exaggerated incentives. And they need, above all, to mobilize their domestic resources fully so as to ensure that domestic enterprise advances at least in step with the activities of the transnational corporations. Under such conditions these corporations can make a positive and constructive contribution to third world development along the lines envisaged in the International Development Strategy.

Chapter II

FOREIGN INVESTMENT: CHANGING PATTERNS IN THE MARKET ECONOMIES

63. Foreign direct investment is one of a variety of resource flows among countries which, in many cases, is a source of both long-term capital and technological and other know-how. As the bulk of foreign direct investment is provided by transnational corporations, an examination of the flows of this kind of investment should yield useful indications of the general evolution of the activities of these corporations.

A. Foreign direct investment in the 1970s

1. Total flows of foreign direct investment

64. The total reported flow of foreign direct investment increased at about 15 per cent per annum in current United States dollar terms in the 1970s and more than trebled between 1970 and 1980 (Tables II.1 and II.2). The rate of growth of this investment was closely in line with that of the GNP of the world's market economies during the decade, but was significantly less than the rate of growth of world trade in that period. In the 1960s, on the other hand, foreign direct investment had grown somewhat faster than GNP and at about the same rate as world trade; it would appear, therefore, that direct investment has not been as dynamic an element in the world economy in recent years as it was previously.

65. The developing countries are still only a minor source of foreign direct investment in comparison with the developed market economies, accounting for less than 2 per cent of the reported total flow in 1978-1980 (Table II.2). The developing countries and territories are, however, important recipients of foreign direct investment. The balance of payments data in Table II.2 suggest that developing countries accounted for a slightly larger proportion of the total inflow of foreign direct investment in 1978-1980 than in 1970-1972 (about 23 per cent compared with 21 per cent). Of the total inflow into these countries, a mere six (Argentina, Brazil, Hong Kong, Malaysia, Mexico and Singapore) consistently accounted for between one-half and three-quarters in the last years of the decade (Annex Table II.13).

66. The flow of foreign direct investment to the developing countries increased at a faster rate than the flow into the developed market economies in the 1970s, but the economies of the former grew even more rapidly, and considerably faster than the economies of the latter. 1/ This aggregated view indicates that, despite its more rapid growth in developing countries, foreign direct investment assumed a relatively less important role in the economies of these countries in the 1970s, whereas in the developed market economies the opposite was the case. The decline in the relative importance of foreign direct investment in the developing countries is reflected even more clearly in their external transactions: their trade increased much faster than foreign direct investment. 2/ Domestic investment in the developing countries as a group also increased more rapidly than foreign direct investment.

Table II.1. Rates of growth of gross national product, trade and investment at current prices in the world's market economies, 1960-1980

(Percentages)

	Developed market economies		Developing market economies		Total market economies	
	1960-1970	1970-1980	1960-70	1970-80	1960-70	1970-80
Gross national product	8.9	14.0	7.6	18.8	8.4	15.2
Gross capital formation	9.7	14.0	8.9	22.1	9.6	15.3
Imports	10.9	19.6	8.3	24.0	10.4	20.5
Exports	10.9	18.7	8.6	24.7	10.4	19.9
Inflow of foreign direct investment	11.7	14.6	7.5	16.7	10.2	15.0
Outflow of foreign direct investment	11.5	15.6	...	41.3	...	15.6

Source: Gross national product, gross capital formation, imports and exports: United Nations Department of International Economic and Social Affairs; Foreign direct investment: Annex Table II.1. and Salient Features and Trends in Foreign Direct Investments, (United Nations publication, Sales No. E.83.II.A.8).

67. At a more disaggregated level, the 1970s witnessed greater diversification in both the origins and destinations of foreign direct investment, notably within the group of developed market economies. Before 1970, the United States accounted for about two-thirds of the total outflow of such investment and for about 10 per cent of the inflow. 3/ By the end of the 1970s, the United States share of the outflow had dropped to less than half and its share of the inflow had increased to more than 30 per cent, with most of the growth taking place between 1977 and 1980. While the United States has for long been the main source of foreign direct investment, it is now in the position of also being the largest recipient of such flows. The changed role of the United States constitutes a major shift in the pattern of foreign direct investment flows. The fact that the United States is the source of approximately 50 per cent and the destination of some 30 per cent of such flows implies that about three-fifths of the foreign direct investment originating outside the United States is directed to that country. As the world's largest developed market economy, the United States therefore continues to play a leading role in the internationalization of economic activity, but it is a role that has changed significantly since the 1960s when the United States was predominantly a source of foreign direct investment.

Table II.2. Foreign direct investment and related flows for developed market economies and developing country regions, 1970-1972 and 1978-1980

(Millions of dollars)

Country	Outflow of foreign direct investment reported by home country		Of which: Earnings reinvested by home country		Inflow of foreign direct investment reported by host country		Of which: Earnings reinvested in host country		Inflow of income from foreign direct investment		Outflow of payments on foreign direct investment	
	1970-72	1978-80	1970-72	1978-80	1970-72	1978-80	1970-72	1978-80	1970-72	1978-80	1970-72	1978-80
Developed market economies												
Australia	113	344	37	178	1 030	1 820	274	1 081	47	149	353	908
Austria	25	90	...	...	84	197	...	...	...	...	...	...
Belgium	171	699	...	...	384	1 371	...	...	...	...	...	...
Canada	316	2 617	...	...	807	1 138	...	...	238	747	696	1 976
Denmark	76	11	...	...	131	64	...	...	24	32	34	63
Finland	53	106	...	...	27	30	3	-	-	6	14	57
France	455	2 359	126	23	612	2 902	10	6	78	295	31	184
Germany, Fed.Rep.of	1 161	4 262	245	744	1 220	1 257	270	406	75	467	871	2 276
Greece	...	...	...	...	49	37	...	...	...	...	5	0
Iceland	...	...	...	...	9	11	...	...	...	...	-	18
Ireland	...	...	...	...	30	238	...	...	...	...	...	...
Italy	242	42	...	...	976	42	...	...	...	...	...	...
Japan	481	2 552	...	...	155	173	...	...	125	1 016	141	509
Netherlands	564	2 210	...	...	575	1 038	...	...	621	2 032	312	1 774
New Zealand	3	-16	...	...	54	28	...	...	-	8	28	55
Norway	21	120	...	...	93	315	...	...	16	24	59	439
Portugal	2	3	...	...	24	73	...	11	1	...	10	...
South Africa	22	89	...	...	237	-204	...	...	127	272	333	958
Spain	35	221	...	...	231	1 270	...	...	1	5	19	72
Sweden	217	551	...	43	86	145	...	8	74	106	38	84
United Kingdom	1 597	5 756	912	3 039	982	3 756	544	2 076	997	2 571	524	1 761
United States	7 649	19 547	3 627	15 753	929	10 205	517	4 238	5 797	17 767	586	2 398
Sub-total	13 203	41 563	4 946	19 779	8 724	25 905	1 619	7 825	8 223	25 495	4 054	13 531
Developing countries												
Europe	...	...	...	...	24	84	...	12	...	...	16	18
West Asia	2	250	...	...	67	-1 074	6	57	...	63	1 598	4 173
South Asia	1	...	...	...	78	79	4	6	1	...	1 060	8
South East Asia and Oceania	20	152	...	...	531	2 389	10	110	15	83	469	3 986
Latin America	17	229	...	2	1 130	4 902	376	1 773	31	145	1 569	2 738
Africa	4	51	...	3	597	1 594	137	155	17	36	1 242	1 861
Sub-total	43	682	-	5	2 428	7 973	533	2 113	65	327	5 954	12 784
Grand total	13 245	42 245	4 946	19 784	11 151	33 878	2 152	9 938	8 287	25 822	10 008	26 316

Source: International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.), various issues.

68. The corollary of the decline in the relative importance of the United States as a source of investment is that the relative position of other countries has changed. Canada, the Federal Republic of Germany and Japan, which were relatively minor sources of foreign direct investment in the 1960s, stepped up their outflow considerably in the 1970s, with the result that these three countries accounted for between one-fifth and one-quarter of the total outflow by the end of the decade. The United Kingdom, traditionally one of the major sources of foreign direct investment, accounted for almost one-eighth of the total outflow between 1970 and 1980. There is also evidence that Switzerland, for which corresponding balance-of-payments data on direct investment flows are not available, was an important source of foreign direct investment in the 1970s. 4/

69. The marked increase in the relative importance of the United States as a destination of foreign direct investment flows and the slight increase in the proportion of the flow from that country to the developing countries were associated with a relative decline in the importance of other host countries, but otherwise there were few pronounced shifts in the pattern of foreign direct investment inflows in the 1970s. As second in importance to the United States as a host country, the United Kingdom increased its share of the total from 9 to 11 per cent in the course of the decade. By the end of the decade, France accounted for almost another 9 per cent of the recorded inflow, having registered almost a five-fold increase between 1970-1972 and 1978-1980. In contrast, there was a marked decrease in the share of the Federal Republic of Germany in foreign direct investment inflows in current prices during the decade, from some 11 per cent of the total in 1970-1972 to less than 4 per cent by 1978-1980.

70. The various changes in the level and distribution of the annual outflows and inflows of foreign direct investment have been associated with even more significant shifts in net flows (outflows less inflows). (Table II.3). Japan, Sweden, the United States and the United Kingdom were consistent net exporters of capital throughout the 1970s. However, the dominant position of the last two countries was eroded substantially during the decade. At the same time, Canada, the Federal Republic of Germany and the Netherlands, from being net importers of foreign direct investment, became net exporters. The Federal Republic of Germany recorded a greater net outflow of foreign direct investment at the end of the decade than did the United Kingdom; Japan's net outflow also grew rapidly during the 1970s.

71. Changes in the positions of the net importing countries have been less notable. Among the developed market economies, Australia tended to be the largest consistent net importer of foreign direct investment throughout the decade, and France also recorded fairly substantial net imports. Other net importers have been the smaller developed countries - Austria, Belgium, Denmark, Finland, Italy, New Zealand and Norway - and the developing countries. As discussed below, the flow to developing countries has been concentrated in a very few countries.

2. Payments and receipts related to foreign direct investment

72. While inward foreign direct investment results in an immediate credit to the balance of payments capital account, it has longer term implications for the current account, in that payments from the host to the home country will have to be made in due course in the form of dividends or other returns on the funds invested (hereinafter referred to as "investment payments"). The size of these investment payments is determined by the stock of foreign direct investment in the host

Table II.3 Net flows a/ of foreign direct investment, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	787	1 044	917	-67	1 087	272	785	899	1 427	1 361	1 641
Austria	84	43	49	72	150	71	50	40	74	107	139
Belgium	162	266	210	451	659	723	520	810	875	-202	1 343
Canada	566	688	220	61	33	-187	-1 061	-475	-1 301	-764	-2 373
Denmark	75	73	16	114	-	188	-127	-85	56	103	0
Finland	-34	-21	-24	-2	6	43	29	-25	-29	-98	-102
France	249	128	92	192	1 072	-23	-587	907	895	508	226
Germany, Federal Republic of	-278	86	369	356	217	-1 323	-1 385	-1 389	-2 078	-3 527	-3 410
Italy	496	118	1 588	360	399	285	-65	587	342	-182	-160
Japan	-261	-151	-565	-1 931	-1 672	-1 530	-1 870	-1 611	-2 354	-2 662	-2 122
Netherlands	18	145	-128	-55	-760	-670	-769	-1 157	-1 088	-981	-1 447
New Zealand	22	56	75	-31	165	189	179	162	9	47	77
Norway	32	62	121	159	199	44	180	641	422	355	-194
Sweden	-105	-92	-197	-222	-350	-356	-592	-655	-344	-505	-368
United Kingdom	-460	-568	-817	-2 175	-1 689	-1 235	-2 417	-978	-2 744	-2 034	-1 221
United States	-6 125	-7 251	-6 786	-8 595	-4 317	-11 607	-7 585	-8 184	-8 163	-12 106	-7 757
Other developed market economies	584	495	486	479	1052	612	388	403	851	1102	1381
Total	-4 188	-4 877	-4 372	-10 833	-37 501	-14 505	-14 328	-10 111	-13 154	-19 477	-14 345

Source: Data from Annex Tables II.1 and II.2.

a/ Minus sign indicates net outflow.

country, by the rate of return on the investment and by the proportion of total earnings which is retained in the country. Data concerning payments on and receipts from foreign direct investment are contained in Annex Tables II.3 and II.4; data concerning the rate of return on foreign direct investment are available for the United States (Annex Table II.5). The total outflow of profits and similar payments from reporting countries roughly trebled between 1970-1972 and 1978-1980 (commensurate with the increase in the flow of foreign direct investment) to about $26 billion annually in the latter period (Table II.2); the reported outflow of such payments in the 1970s tended to exceed the net inflow on the capital account directly attributable to foreign direct investment. However, it should be borne in mind that this balance of financial flows takes no account of the effect of foreign direct investment on exports and imports, which may have a positive or negative effect on the balance of payments, depending on circumstances.

73. One of the reasons why the ratio between inflows of foreign direct investment and outward payments in respect of such investments varies from country to country (or from one group of countries to another) is that these payments are geared to the stock of foreign direct investment rather than to the current flow; the pattern of payments therefore provides an indication of the total foreign investments made by home countries. The United States received about 70 per cent of reported investment payments during the 1970s, a figure reflecting the heavy investment it had made abroad in prior years. The United Kingdom received between one-tenth and one-eighth of such investment payments, while the share accounted for by countries which have become major foreign investors only recently, such as the Federal Republic of Germany and Japan, was less than their share of the outflow of foreign direct investment in recent years.

74. In 1978-1980, developing countries made almost half the recorded payments on foreign investment, but received less than a quarter of the reported foreign direct investment inflows and a negligible amount of investment income. Developing countries reported total payments on foreign direct investment averaging some $12.8 billion annually during 1978-1980, compared with an inflow of some $8 billion of such investment. Some two-thirds of all payments by developing countries on foreign direct investments came from oil-exporting countries (Annex Table II.3) which, as indicated below, are now relatively less important as recipients of foreign direct investment.

75. The level of investment payments abroad is affected if firms decide to reinvest part of their profits in the host country. Ideally, any such reinvestment of earnings should be recorded as an outflow in the current account of the balance of payments and as an equivalent inflow in the capital account; in reality there are few countries which record these implicit financial flows. Consequently, the aggregate figures for reinvested earnings in Table II.2 and Annex Tables II.6 and II.7 have to be interpreted with care. If non-reporting countries are excluded, the data indicate that reinvested earnings accounted for 58 per cent of the total outflow of foreign direct investment from developed countries in 1978-1980 compared with 45 per cent in 1970-1972. Reinvested earnings have become particularly important in the major home and host countries. Table II.2 shows that $4.2 billion of the United States annual inflow of foreign direct investment of $10.2 billion in the period 1978-1980 was financed from reinvested earnings, while $15.8 billion of its annual outflow of investment of $19.5 billion was financed in this way.

3. Sectoral distribution of foreign direct investment

76. At the beginning of the 1970s, more than one-quarter of the foreign direct investment of the developed market economies was accounted for by the extractive sector, one-quarter by the service sector and less than half by the manufacturing sector. In the 1970s, foreign direct investment in the service sector and, to a lesser extent, in the manufacturing sector came to be preferred to investments in the extractive sector in both the developed and the developing countries. The decline in the proportion of United States and Japanese foreign direct investment in the extractive sector was particularly notable. The trend has been towards greater investment in service industries, especially banking and insurance. In the case of Japan, the Netherlands, the United Kingdom and the United States, this increase in the share of the service sector in their investment abroad was roughly equivalent to the decline in the share of the extractive sector. In other countries, foreign direct investment in the manufacturing sector has shown the most dynamic growth. The foreign direct investment of developed market economies in the extractive sector has been made mostly in such industries as petroleum, copper and bauxite and aluminium, while investments in the manufacturing sector have been made primarily in the food, chemical, pharmaceutical, automobile and engineering (including machinery) industries. Industries such as textiles, food and beverages, non-metallic minerals and pulp and paper products account for relatively small shares of foreign direct investment in the manufacturing sector.

77. Foreign direct investment by the developed market economies in developing countries has traditionally been made in the extractive and primary sectors, particularly petroleum, non-fuel minerals and plantation industries, while investment in the manufacturing sector has been relatively limited. In the 1970s in general, but particularly during the latter part, foreign direct investment in the manufacturing and service sectors in developed countries accounted for an increasing share of the direct investment from the developed market economies. This increase took place principally in import-substitution sectors, but in certain developing countries increased foreign direct investment was channelled into industries designed to produce manufactured goods for export. Investments in these countries are, by and large, concentrated in the same industries as in developed market economies, that is, the chemicals, engineering and food processing industries.

78. Foreign direct investment tends to be concentrated in specific industries within regions. United States manufacturing companies have tended to invest in the chemicals, machinery, transportation equipment and food industries, and mainly in Latin America. (Annex Table II.8) Companies from the United Kingdom have tended to specialize in the same industries (Annex Table II.9), but give greater emphasis to food processing than the United States corporations. Moreover, transnational corporations based in the United Kingdom seem to divide their investments between Latin America and Asia. Transnational corporations based in the Federal Republic of Germany seem to follow the same pattern of industry specialization in the manufacturing sector in the developed countries as those based in the United States and the United Kingdom, with the exception that their investments in the food industry abroad are minor (Annex Table II.9). In contrast, Japanese transnational corporations place relatively more foreign direct investment in the textile, iron and steel and non-ferrous metal industries in the developing countries, although the chemical and engineering industries are also of importance. (Table A.II.10) Japanese corporations with investments in Latin America have tended to focus on the transportation equipment, lumber and pulp and machinery industries, while their

investments in the textile and food industries are mainly in Asian countries. These sectoral characteristics of foreign direct investment in the manufacturing sector are discussed further in Chapter IV.

79. Trends in the sectoral distribution of foreign direct investment generally conform with the changes in the structure of economic activities in both home and host countries. Increased foreign direct investment, particularly in the manufacturing sector, necessitates an increase in supporting services abroad in the form of banking, insurance, advertising and other marketing services. At the same time, changes in the policies of most developing counties with regard to the ownership and development of their natural resources were among the factors responsible for the decline in foreign direct investment in the extractive sector in the 1970s.

4. Role of private sector resource flows to developing countries

80. Broadly speaking, the total flow of resources to developing countries comprises official development assistance (ODA), a variety of multilateral and bilateral official flows on non-concessional terms, private and official export credits, and private sector flows. The last category essentially comprises foreign direct investment and financial capital obtained by borrowing from commercial banks and, in the case of a very few developing countries, by issuing notes and bonds.

81. Table II.4 shows that ODA accounted for over 43 per cent of the total flow of resources to developing countries in 1970-1972, but for only 36 per cent in 1979-1981. The share of foreign direct investment in the total flow of external resources from the developed to the developing countries likewise declined as the decade progressed, accounting for over 17 per cent of the total flow during 1970-1972 but for less than 14 per cent in 1979-1981. In contrast, bilateral non-concessional flows (particularly flows from OPEC countries and from some other non-members of OECD) and multilateral non-concessional flows (from the international financial institutions) expanded rapidly, although they did not become a major element of the total. Long and medium term bank lending, on the other hand, increased almost sixfold during the decade and accounted for about a quarter of the total flow from 1973 onwards, compared to less than 18 per cent at the beginning of the decade; there were also marked increases in export credits. However, even these increases do not reflect the heavy short-term (one year or less) borrowing from commercial banks undertaken by a small number of developing countries in recent years. Over-all, therefore, the 1970s witnessed a noticeable decline in the relative importance of official transfers to the developing countries as a group and an increased reliance on private sector flows. Transnational banks served as the vehicle for the great majority of the commercial lending to developing countries, most importantly by providing short and medium-term loans at variable interest rates but also by extending export credits (frequently guaranteed or subsidized by the government of a developed country).

82. One consequence of the increase in commercial lending has been a corresponding change in the pattern of the various forms of liabilities of developing countries towards developed countries. Excluding short-term debt, the developing countries' indebtedness resulting from commercial bank loans grew from less than $11 billion at the end of 1971 to some $155 billion at the end of 1980 and to an estimated $180 billion at the end of 1981 (Table II.5). In addition, the amount outstanding against export credits increased from $27 billion in 1971 to an estimated $128 billion in 1981. Other forms of debt also grew rapidly but were less

Table II.4 Net long-term financial flows to developing countries from all sources, 1970-1981

(Billions of dollars)

Type of flow	1970-72	1973-75	1976-78	1979-81
Official development assistance	27.5	49.0	67.2	102.5
Non-concessional flows				
Direct investment	11.2	18.1	30.1	38.4
Bank sector	11.1	31.7	53.4	63.7
Bond lending	1.1	1.3	7.1	6.7
Export credits	8.3	11.2	31.6	39.2
Other bilateral	1.7	5.8	7.2	20.7
Multilateral	2.6	5.7	8.7	14.0
Total	63.5	122.8	205.3	285.2

Source: Organisation for Economic Co-operation and Development, Development Co-operation: 1982 Review, Paris, Table V-2.

important in absolute terms. The result was that bank loans accounted for more than one-third of the developing countries' total medium and long-term indebtedness in 1981, compared to about 12 per cent in 1971. Commercial bank loans also became more important in relation to the estimated stock of foreign direct investment held by the member countries of the OECD in the developing countries; this stock increased from around $45 billion at the end of 1971 to just short of $120 billion by the end of 1980.

83. The rapid growth in commercial bank lending is marked by three notable characteristics. First, it has been directed towards a very limited number of middle and higher income developing countries. There is a great resemblance between the patterns of the flows of commercial loans and those of foreign direct investment to developing countries; countries with a higher GDP per capita tend both to have better access to private bank lending and to be more attractive to foreign direct investment. Secondly, a large part of the borrowing by these countries, because contracted in the commercial market, has been undertaken on a floating interest rate basis. It is estimated, for example, that developing countries accounted for approximately half the syndicated bank credits finalized during 1971-1980, 5/ roughly double their share of foreign direct investment during the same period. A third characteristic is that short-term loans have become increasingly important as a component of the total flow of commercial finance to

Table II.5. Disbursed debt of developing countries at year-end 1971 and 1980-1982, by source and terms of lending

(Billions of dollars)

Source and terms of lending	1971	1980	1981 a/	1982 b/
Developed market economies	71	361	407	476
Official development assistance	24	57	57	63
Export credits	27	114	128	148
Capital markets c/	20	190	222	265
of which: bank loans	11	155	180	210
Multilateral organizations	10	56	65	76
of which: concessional	6	24	28	32
CMEA countries	6	15	17	20
OPEC	-	18	23	29
Other developing countries	2	8	10	13
Unspecified and adjustments	1	7	8	12
Total	90	465	530	626
Of which: non-concessional	57	362	414	495
concessional	33	103	116	131
Memorandum item:				
Stock of foreign direct investment	45	119	...	...

Source: Organisation for Economic Co-operation and Development, External Debt of Developing Countries, 1982 Survey (Paris, 1982). Organisation for Economic Co-operation and Development, Development Co-operation: 1973 Review and ibid., 1982 Review.

a/ Preliminary.

b/ Estimated.

c/ Bank loans (other than export credits), bonds and other private lending.

developing countries. The result of these concurrent phenomena was that the debt subject to floating interest rates of four countries (Argentina, Brazil, Mexico and the Republic of Korea) increased by about $100 billion during the four years 1979-1982 and that about half the new loans to these four countries have had maturities of one year or less. 6/ In comparison, Table II.4 shows that the total flow of ODA to all developing countries over the three-year period 1979-1981 was somewhat over $100 billion; another yardstick for measuring the extent of this new debt is the developed countries' total accumulated stock of foreign direct investment in the developing countries which, as noted above, was around $120 billion at the end of 1980.

84. For the limited number of developing countries concerned, the recent heavy reliance on commercial borrowing may be seen as increasing their debt-to-equity ratio; equally importantly, a large part of their recently acquired debt is short-term in nature and most of it has been contracted on non-concessional terms. These changes in the composition of developing countries' liabilities have occurred in a climate characterized in the last few years, and particularly in the early years of the 1980s, by high interest rates and a deteriorating world economic situation. In 1981-1982, the average interest rate on these countries' floating interest rate debt was 17 per cent per annum compared to an average of 9 per cent per annum over the period 1973-1979. 7/ Partly because of the increase in the volume of debt and partly because of the higher interest rates, interest payments by non-OPEC developing countries increased from around $10 billion in 1977 to about $40 billion in 1981 and are estimated to have risen to approximately $50 billion in 1982. 8/ Export receipts of developing countries, notably the OPEC countries, grew rapidly in the late 1970s; however, in 1981 they increased by only 5 per cent and it is estimated that in 1982 they fell by about the same proportion, making it increasingly difficult for a number of developing countries to meet their financial obligations to foreign banks. In the short period of a decade, the claims of the transnational banks on the financial assets of a small number of developing countries have come to exceed the transnational corporations' stock of investment in all developing countries. Earlier concerns about the possibility of expropriation of the assets of transnational corporations have given way in the 1980s to concern about the exposure of transnational banks in these few developing countries.

5. Flow of foreign direct investment to developing countries

85. There was a relatively steady increase in the flow of foreign direct investment to developing countries in the 1970s (measured in current United States dollars), although the data suggest that there were marked breaks in this trend in 1974 and in 1980. 9/ The flow of foreign direct investment from countries members of the Development Assistance Commitee (DAC) of OECD to developing countries (Annex Table II.A.12) increased from an annual average of $3.7 billion in 1970-1972 to $11.7 billion in 1979-1981. The United States was the source of approximately half the total flow throughout the 1970s, and the United Kingdom the second ranking, but considerably less important, source. Both Japan and the Federal Republic of Germany became increasingly important sources of foreign direct investment in the 1970s, but Japanese companies appear to have given relatively greater prominence to investments in developing countries and were responsible for some 9 per cent of the flow of foreign direct investment from DAC countries to developing countries in 1979-1981 compared with 6 per cent in 1970-1972. The share of this total attributable to the Federal Republic of Germany, on the other hand, fell somewhat, indicating that developing countries accounted for a smaller share of its expanded foreign direct investment.

86. The main developing countries receiving foreign direct investment in the 1970s were those in the small group of higher income countries. During 1978-1980, countries with an annual per capita GNP of over $1000 in 1979 accounted for about a quarter of the population of the developing countries (excluding China and other socialist countries in Asia), but received 65 per cent of the foreign direct investment flowing from the DAC countries to developing countries, slightly more than their share in 1970-1972 (Table II.6.). Low income developing countries (considered as those with an annual per capita GNP of less than $380 in 1979 but excluding the socialist countries of Asia) accounted for almost 60 per cent of the population of the same group of developing countries, but received less than 5 per cent of the flow of foreign direct investment in 1978-1980 compared with 14 per cent in 1970-1972. At the opposite end of the spectrum, the share of the oil-exporting developing countries in the total foreign direct investment inflow into developing countries declined in the 1970s - 10 per cent in 1978-1980 compared to 17 per cent in 1970-1972. Their declining share was counterbalanced by the rise in the share of total foreign direct investment going to the higher income petroleum importing developing countries, notably the newly industrializing and small tax haven countries which respectively accounted for 37 per cent and 15 per cent of the total in 1978-1980, as against 24 per cent and 7 per cent in 1970-1972.

87. The analysis of flows of foreign direct investment does not present a complete picture of the importance of foreign participation in various countries because it does not take account of the stock of such investment which may have been built up as the result of past flows. By regions, Latin America accounted for about one-third of the aggregate GNP of the developing countries in 1979, but held more than 50 per cent of the developing countries' total stock of foreign direct investment from DAC countries at that time, having slightly increased its share during the previous decade (Table II.7). The developing countries of South and East Asia also increased their share of the stock of foreign direct investment during the decade, accounting for almost a quarter of the total in 1978 compared with less than one-fifth in 1971. In contrast, Africa's share of the total has fallen from almost one-fifth to about one-eighth in the same period, and that of West Asia from 6 per cent to 3 per cent.

88. As noted above, in the 1970s foreign direct investment in the developing countries increased less rapidly than the GNP of these countries as a group and grew considerably more slowly than total domestic investment in those countries (Table II.1). On average, the flow of foreign direct investment into developing countries at the end of the 1970s was equivalent to approximately 0.4 per cent of their GNP. However, the role of foreign direct investment varies greatly from country to country (Table A.II.15). For the low-income countries the ratio of foreign direct investment to GNP was considerably less than 0.1 per cent while for high-income countries it was around 0.6 per cent. Even more pronounced was the difference between the ratios for the least developed and the newly industrializing countries, which were only 0.05 per cent and almost 0.8 per cent, respectively. As between individual developing countries, the differences were striking: in a number of the small tax haven countries, the reported inflow of foreign direct investment exceeded two-thirds of GNP. These special cases aside, there were a number of countries in which foreign direct investment was significant in relation not only to GNP but also to other capital inflows. Among the newly industrializing countries, the ratio of foreign direct investment to GNP was 4 per cent for Singapore, almost 1.8 per cent for Hong Kong and 1 per cent for Argentina; outside this group, Liberia, the Islamic Republic of Iran, Zaire, Fiji, Papua New Guinea and Peru recorded ratios of 9 per cent, 4.7 per cent, 2 per cent, 1.4 per cent,

Table II.6. Distribution of foreign direct investment and other resource flows from OECD countries among groups of developing countries, 1978-1980

(Percentage)

	Gross national product 1979	Stock of foreign direct investment, end-1978	Flows from OECD countries Annual average, 1978-1980		
			Foreign direct investment	Bank loans	All resources
Total developing market economies	100.0	100.0	100.0	100.0	100.0
By income group					
Less than $380 per capita GNP	16.9	13.5	3.1	1.4	16.8
$380-$1000 per capita GNP	14.7	13.5	8.7	11.4	19.4
Above $1000 per capita GNP	68.0	58.2	49.5	86.8	50.2
Of which: tax havens	0.3	14.2	14.8	0.2	3.6
No per capita GNP data	0.0	0.6	23.7	0.0	26.1
By region					
Europe	3.0	0.4	1.7	6.4	3.7
West Asia	14.6	3.2	-2.6	3.4	11.5
South Asia	9.9	5.0	4.7	13	8.5
South and East Asia	13.9	22.1	18.7	12.3	12.5
Socialist Asia	13.7	0.0	0.1	0.2	0.8
Latin America	30.7	56.7	64.4	62.7	33.7
Africa	14.1	12.4	13.1	13.7	29.4
Unallocated	0.0	0.0	7.9	0.0	16.9
Other country groups					
Least developed countries	2.9	1.5	0.4	0.6	9.0
Oil exporting countries	21.8	16.6	10.7	12.2	13.4
Newly industrializing countries	27.1	33.7	40.1	56.9	20.1
Tax havens	0.3	14.2	16.0	0.2	3.6

Source: Annex Table II.14.

Table II.7 Distribution of foreign direct investment among groups of developing countries, 1970-1972 and 1978-1980

(Percentage)

	Population 1979 (thousand)	Gross national product 1979 ($million)	Stock of foreign direct investment end-1971	Inflow of from OECD countries Annual average 1970-1972	Stock of foreign direct investment end-1978	Inflow of from OECD countries Annual average 1978-1980
Total	100.0	100.0	100.0	100.0	100.0	100.0
By income group						
Less than $380 per capita GNP	57.0	17.0	10.9	14.1	13.5	4.1
$380-$1000 per capita GNP	16.8	14.7	16.5	15.5	13.5	11.4
Above $1000 per capita GNP	26.1	68.0	60.9	58.7	58.2	65.0
Of which: tax havens	0.1	0.4	8.0	11.7	14.2	19.6
By region						
Europe	1.1	3.4	0.3	1.7	0.4	1.6
West Asia	4.4	17.0	6.4	0.8	3.2	-2.4
South Asia	42.0	11.5	7.2	0.7	5.0	4.3
South and East Asia	16.6	16.1	11.8	23.3	22.1	17.4
Socialist Asia	47.8	15.9	0.4	...	...	0.1
Latin America	16.0	35.6	55.7	43.9	56.7	59.7
Africa	19.9	16.4	18.6	19.2	12.4	12.1
Unallocated	...	...	0.1	10.4	...	7.3
Least developed countries	12.4	3.3	1.5	0.6	1.5	0.3
Oil exporting countries	15.3	25.3	25.2	16.7	16.6	9.9
Newly industrializing countries	12.6	31.4	25.0	24.0	33.7	37.2
Tax havens	0.1	0.4	8.0	7.1	14.2	14.9

Source: Annex Table II.13.

1.1 per cent and 1.1 per cent respectively. In the case of Brazil and Mexico, though recipients of substantial foreign direct investment, the investment was less significant in relation to their respective GNPs - equivalent to 0.65 per cent and somewhat less than 1 per cent, respectively.

6. Flow of foreign direct investment from developing countries

89. Whereas they are recipients of large volumes of foreign direct investment, developing countries are a source of only a small proportion of the total outflow of such funds, even though sizeable outflows of foreign direct investment from a few developing countries began to materialize in the latter half of the 1970s. Less than 2 per cent of the reported outflow of such investment originated in developing countries during 1978-1980, although this was a marked increase over the 0.3 per cent recorded for 1970-1972 (Table II.2). Part of the reason for the increase would appear to be that reporting improved during the decade, but the reporting is probably still imperfect. There were 41 developing countries which reported foreign direct investment outflows in one or more of the years 1970-1980 (Annex Table II.15). Kuwait was the only OPEC country which reported any sizeable outflow of foreign direct investment in that period, although the data also show large outflows from Brazil and the Philippines in the later 1970s. However, it is generally recognized that in recent years sizeable foreign direct investments were made by other OPEC countries and by other countries of Latin America and Asia. Even in those cases where data are collected, it is probable that they underestimate the true magnitude of the flow, partly because of incomplete reporting. On the other hand, as in the case of the developed countries, some of the outflow of foreign direct investment from the developing countries may be indirect: it may consist of investment by affiliates of transnational corporations from third countries rather than of foreign investment by parent companies in the reporting country.

90. There is no evidence of any significant flows of foreign direct investment from Africa, but a number of countries in Latin America, Western Asia and South and East Asia are now sources of investment capital. There are, however, notable differences in the nature of the outflows from the countries in each of these regions. The most striking event in the last decade in this context has been the new-found role of some of the oil-producing countries in Western Asia as major exporters of capital, in the form both of foreign direct investment and of portfolio investment. Immediately after the initial increase in oil prices in the early 1970s, a large part of the accumulated surpluses of these countries tended to be held in the form of bank deposits, gold and other liquid assets. Since then, there has been a rapid growth of investment in non-financial assets, both within the OPEC countries themselves and abroad. It is estimated that the stock of direct and portfolio capital invested abroad by Kuwait, Saudi Arabia and the United Arab Emirates alone amounted to some $100 billion at the end of 1981. 10/

91. These newly capital-exporting countries achieved this position either through the expansion of domestic enterprises into foreign markets or through the acquisition of equity interests in existing foreign companies. In the former category, one of the most striking developments has been the rise to prominence of a number of large transnational banks, including a number of consortium banks, based in the OPEC countries. By 1982, there were 33 Arab banks among the world's 500 largest banks. 11/ However, in contrast with many of the transnational banks from the developed market economies, the foreign branches of these banks concentrated on international rather than on domestic banking business; outside the

Arab world, therefore, their offices tend to be in financial centres, including those in developing countries.

92. Non-banking enterprises from the oil-exporting countries of the Middle East (some of which, despite their size, are family concerns, not publicly-quoted companies) have also extended their operations beyond their national boundaries, frequently into other Arab countries and into South Asia. For example, Arab companies are active in the fertilizer, computer and hotel industries in India. 12/ There has also been extensive Arab direct investment in the developed market economies, but commonly through the acquisition of all or part of the equity of existing companies; the investing enterprise is frequently a State-owned financial holding company rather than a private sector commercial enterprise. It is estimated, for example, that Kuwait, through the Kuwait Investment Office, had acquired at least a 5 per cent interest in almost 50 United Kingdom companies by the end of 1981; the value of the equity involved was some £440 million. 13/ In the United States, the Kuwait Petroleum Corporation acquired a drilling and energy company for $2.5 billion in late 1981. Kuwait has also invested in other developed market economies, as well as in the developing countries; it has, for example, a 10 per cent share in a large transnational corporation's affiliate in the automobile industry in Brazil. The redistribution of wealth which occurred in the 1970s in consequence of the increase in world oil prices has therefore had an indirect impact, even if relatively minor, on the pattern of ownership of existing corporations.

93. The reasons why firms in Latin America and Asia (other than Western Asia) undertake foreign investment are very different from those which have influenced the capital surplus oil-producing countries; they appear, in fact, to be comparable to those that initially motivated companies in the developed market economies to venture abroad. Evidence from South-East Asia suggests that one reason for the growth of transnational corporations based in that region has been the protection of export markets in both the developed and the developing countries. Because of the small size of a number of the domestic markets in the region, initial efforts at industrialization in some of the more advanced countries in East Asia were based on the small-scale labour-intensive production of goods for export, first to less industrialized countries, frequently those in the region, and subsequently to developed countries. As the developing countries gained economic strength, costs rose in those countries which were industrializing while the other countries sought to emulate their more advanced neighbours, inter alia by protecting and promoting domestically the labour-intensive industries which had been successful elsewhere. More recently, exports from the newly industrializing and other developing countries have been impeded by protectionist restrictions in the developed countries, one manifestation of which has been the limitation of imports of certain items originating in specified countries. In these circumstances, there are incentives for firms in such countries to establish production facilities in a less advanced developing country, not only in order to be able to enter the new market of that country and benefit from its low costs, but also in order to overcome any country-of-origin barriers on imports into other countries. Another motive of firms in developing countries for investing abroad may have been the wish to diversify their activities in order to minimize the risk associated with any political or economic instability in their home country.

94. Like their counterparts from the developed market economies, these firms find themselves endowed with certain advantages not only over the host country's enterprises, but also over potentially competitive transnational corporations from

the developed countries. In most cases, they have the advantage of familiarity with small-scale labour-intensive technologies and of previous experience in the industry; in addition, their exports from the home country may have served to build up a limited degree of product loyalty. A study of 23 transnational corporations based in the ASEAN region found that, compared to transnational corporations from developed market economies, such companies were less capital intensive and less inclined to use large-scale production techniques. Their output was more appropriate to the income level of the host country and they tended to use more locally-produced inputs and to compete on the basis of price rather than non-price factors. They were also more inclined to form joint ventures with local enterprises, possibly because they had less proprietary technological advantages to protect but also, in the absence of marketing advantages, because they wished to improve their access to the local market. 14/

95. Transnational corporations based in developing countries have thus far concentrated their efforts in other developing countries. The Andean Pact countries as a group, Brazil and Uruguay each received slightly more than 30 per cent of the $21.6 million of authorized foreign investments from Argentina over the period 1965-1978 (Annex Table II.16). In the case of Colombia, about one-eighth of its outflow of foreign direct investment until the end of 1976 went to North America and slightly less to Europe; the remainder remained in the Americas with more than one-third going to Andean Pact countries (notably Venezuela) and rather less than one-third to Panama. In Asia, transnational corporations based in India are somewhat more widely diversified (operating in more than 25 countries) but are concentrated in the Asian region. 15/

B. Other indicators of the evolution of transnational corporations

96. Because of the variety of means available to transnational corporations for expanding their activities and because of the inherent deficiencies in the data, an examination of trends in foreign direct investment provides an incomplete picture of the changing pattern of the activities of these corporations. The data concerning foreign direct investment do not indicate the extent of the participation of these corporations in a host economy at a particular time; even stock data, where available, are of limited usefulness for this purpose. The present section therefore seeks to amplify the previous analysis in the light of some additional evidence of the extent of the activities of transnational corporations.

1. Geographical distribution of affiliates of transnational corporations

97. Further insight into the relative importance of home and host countries of transnational corporations can be obtained by examining the geographical distribution of their foreign affiliates. Data concerning the number of affiliates convey little idea of the size of the operations of transnational corporations, but they can serve as a useful proxy measure of the global spread of such corporations. According to 1980 data, almost 57 per cent of some 98,000 affiliates were in the developed market economies of Europe, a further 9 per cent in North America and about a quarter in developing countries (Table II.8). More than one-third of the affiliates are associated with United States-based companies and more than one-fifth with United Kingdom based companies. (Table II.9).

Table II.8. Distribution among regions of foreign affiliates of companies from selected home countries

(Percentage)

Home Country	Host Region: Developed market economies				Developing countries						
	North America	Europe	Other a/	Sub-total	Latin America	Africa	West Asia	South and East Asia	Europe	Sub-total	Total
Australia	8.7	19.8	27.9	56.5	1.7	0.7	0.7	40.5	-	43.5	100.0
Austria	6.2	72.2	2.8	81.2	9.8	1.2	3.5	3.5	0.8	18.8	100.0
Belgium	5.2	74.4	2.2	81.8	6.1	9.7	0.6	1.5	0.2	18.2	100.0
Canada	34.9	39.7	8.1	82.7	12.6	1.3	0.4	2.8	0.2	17.3	100.0
Denmark	7.3	73.3	4.9	85.5	4.9	3.5	1.0	4.9	0.2	14.5	100.0
Finland	11.4	80.5	1.2	93.1	3.2	1.6	1.2	0.8	-	6.9	100.0
France	8.2	58.0	3.3	69.5	7.7	18.7	1.1	2.9	0.1	30.5	100.0
Germany, Fed.Rep.of	9.0	68.2	5.2	82.4	9.2	3.0	0.8	4.4	0.2	17.6	100.0
Italy	7.4	63.0	3.5	73.9	15.0	6.7	1.1	2.6	0.7	26.1	100.0
Japan	17.1	19.5	5.2	41.8	13.4	2.2	0.8	41.7	-	58.2	100.0
Luxembourg	1.4	88.8	0.6	90.8	7.9	0.7	-	0.7	-	9.2	100.0
Netherlands	6.3	70.9	5.0	82.2	6.7	5.0	1.1	5.3	0.3	17.8	100.0
New Zealand	4.2	10.8	61.7	76.7	0.9	0.4	0.2	21.5	0.2	23.3	100.0
Norway	8.8	74.6	2.8	86.2	3.6	3.0	1.9	5.3	-	13.8	100.0
Portugal	-	57.2	-	57.2	21.4	21.4	-	-	-	42.8	100.0
Spain	2.4	62.1	1.0	65.5	27.7	4.8	-	2.1	-	34.5	100.0
Sweden	9.4	73.1	4.5	87.0	7.1	1.3	0.5	4.0	0.1	13.0	100.0
Switzerland	8.1	72.7	5.6	86.5	6.9	1.7	0.8	4.0	0.1	13.5	100.0
United Kingdom	14.1	35.2	26.5	75.8	4.7	7.7	0.9	10.4	0.5	24.2	100.0
United States	12.9	42.6	9.7	65.3	21.4	2.3	0.9	10.0	0.1	34.7	100.0
Average (Developed Market Economies)	9.2	56.9	9.1	76.1	9.6	4.9	0.9	8.4	0.2	23.9	100.0
Hong Kong	3.6	16.3	24.9	44.8	4.3	19.5	0.3	31.0	0.1	55.2	100.0
Malaysia	-	29.1	10.9	40.0	2.3	2.3	-	55.4	-	60.0	100.0
Singapore	1.9	8.7	6.2	16.8	1.2	0.5	-	81.5	-	83.2	100.0

Source: See Annex A.

a/ Australia, Japan and New Zealand.

Table II.9. Distribution of affiliates of transnational corporations by home country within regions, 1980

(Percentage)

Home Country	Developing Host Region						Developed market economies	Grand Total
	Latin America	Africa	West Asia	South and East Asia	Europe	Total		
Australia	0.3	0.3	0.7	7.2	0.4	2.8	1.4	1.8
Austria	0.2	0.1	1.1	0.1	0.9	0.2	0.3	0.3
Belgium	0.9	3.5	1.3	0.3	1.4	1.2	2.0	1.8
Canada	3.2	0.8	1.4	0.8	2.7	1.9	3.5	3.1
Denmark	0.4	0.6	1.1	0.4	0.9	0.5	1.1	0.9
Finland	5.9	0.1	0.4	-	-	0.1	0.3	0.2
France	3.1	18.1	6.2	1.3	3.2	5.2	4.6	4.8
Germany, F.R.	5.9	4.6	7.0	3.2	8.2	4.7	8.6	7.5
Italy	2.0	2.2	2.1	0.4	5.0	1.5	1.6	1.6
Japan	3.5	1.4	3.0	12.6	-	6.4	1.8	3.1
Netherlands	2.3	4.6	5.5	2.3	6.4	2.8	5.1	4.5
New Zealand	-	-	0.1	1.0	0.4	0.4	0.5	0.5
Norway	0.1	0.3	1.1	0.3	-	0.2	0.6	0.5
Portugal	-	0.1	-	-	-	*	*	*
Spain	0.5	0.2	-	-	-	0.3	0.2	0.2
Sweden	2.1	0.9	2.0	1.3	1.4	1.6	3.4	3.4
Switzerland	2.4	1.5	3.7	1.6	1.4	2.0	5.0	4.2
United Kingdom	10.1	40.2	26.3	25.6	56.4	21.9	26.8	25.4
United States	62.2	15.9	36.6	33.5	10.9	42.4	31.2	34.3
Other countries a/	0.6	4.7	0.5	8.0	0.4	4.0	1.0	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Less than 0.1.

Source: Annex Table II.17.

a/ Hong Kong, Luxembourg, Malaysia and Singapore.

98. The distribution of affiliates between developed and developing countries varies among home countries. If corporations are classified by home country, those from each developed market economy except Japan have more identified affiliates in developed than in developing countries, although corporations from Australia, France, Portugal, Spain and the United States tend to have a higher proportion of affiliates in developing countries. Corporations from Denmark, Finland, Norway and Sweden are among those with the lowest proportion of affiliates in developing countries.

99. In 1980, approximately three out of every 10 foreign affiliates in the developed market economies were associated with United States-based transnational corporations; almost a quarter were attached to United Kingdom-based companies. In 12 of the 25 developed market economies examined, the affiliates of United States-based transnational corporations outnumbered by far those of corporations from any other country; affiliates of United States-based transnational corporations are the second or third largest group in seven of the remaining developed market economies. Affiliates of firms based in the United Kingdom are the largest group in seven countries, while affiliates of firms based in the Federal Republic of Germany are most numerous in two countries; Sweden is the principal home country of corporations having affiliates in the other Nordic countries.

100. In most cases, the leading home country accounts for less than half of the total number of affiliates in any one host country, although there are some notable exceptions: United States-based transnational corporations account for about two-thirds of all affiliates in Canada and Japan, and for more than half of these in the United Kingdom.

101. Among the developing countries, those in the Americas are host to the largest number of affiliates of transnational corporations based in the developed market economies; more than half of the affiliates established in developing countries by firms from ten of the 20 home countries concerned operate in this region (Annex Tables II.17 and II.18). South and East Asia is the most important developing region for affiliates of transnational corporations from five other home countries; in one case, the Americas and South and East Asia are ranked equally as host regions. For companies from two other home countries, Africa is the most important host among the developing regions.

102. Over-all, United States companies are parents of about 40 per cent of the identified affiliates in developing countries; affiliates of United Kingdom companies make up another 20 per cent of the total established in developing countries. The degree of dispersion of these affiliates among regions varies according to the country in which the parent companies are based. More than 60 per cent of the affiliates set up by United States corporations in developing countries are in Latin America and almost 30 per cent in South and East Asia (Annex Table II.19). In contrast, most of the affiliates set up by French companies in developing countries are in Africa (60 per cent) and only a quarter in the Americas. Particularly notable is the fact that about three-quarters of identified Japanese affiliates and more than 90 per cent of the affiliates of Australian corporations are in the Asia region. In other cases, such as the Netherlands, Norway and the United Kingdom, the distribution among developing host regions was less uneven; more than 40 per cent of the affiliates set up by British companies in developing countries were in South and East Asia, almost one-third in Africa and about one-fifth in the Americas.

103. The importance of affiliates of transnational corporations from each home country varied within each region. A large proportion of the affiliates identified in all regions are associated with companies based in the United Kingdom or the United States although United Kingdom companies were relatively under-represented in the Americas and United States companies in Africa. In Latin America, corporations based in the United States account for almost two-thirds of all affiliates; the United Kingdom accounted for a tenth of the regional total. In Africa, two-fifths of all affiliates were attached to United Kingdom companies, French companies were the parents of almost one-fifth and United States corporations of one-sixth of the African affiliates; affiliates of French companies played a lesser role in other regions. In Asia, United States and United Kingdom companies accounted for about a third and a quarter of the total number of affiliates, respectively; Japanese firms accounted for about one-eighth of all affiliates in South and East Asia, but for only 3 per cent of those in Western Asia. About one-twelth of the affiliates in Asia were related to Australian or New Zealand companies, but these companies play an insignificant part in other regions. The companies from the Federal Republic of Germany and the Netherlands, though much less active in developing countries than companies from the two leading home countries, have set up affiliates in each region. Affiliates of transnational corporations from other countries were not of major significance in any of the regions examined.

104. The data suggest that, in most host countries, the majority of affiliates are associated with firms from a very limited number of home countries; this occurrence is particularly pronounced in the developing countries. More specifically, affiliates of firms from only one home country account for a large proportion of the affiliates in many of the developing countries, although the predominant home country is not necessarily the same in each host country. Affiliates of firms from the leading home country in each host country account for more than 90 per cent of all affiliates in 73 of the 124 developing countries; the same was true in only six of the 25 developed market economies (Table II.10).

105. Affiliates of firms from only four home countries account for at least 80 per cent of all affiliates in the overwhelming majority of developing countries, although the predominant home countries are not necessarily the same in each host country. The transnational corporations present in most developing countries, therefore, tend to be from a very limited number of home countries; however, this situation may be changing as a result of the increased diversification in the sources of foreign direct investment referred to earlier.

2. Share of transnational corporations in manufacturing in developed market economies and selected developing countries

106. Only limited data are available on which to base a judgement concerning the importance of transnational corporations in the economy of individual developing countries; the more comprehensive data for certain developed countries (Annex Table II.23) suggest that the share of transnational corporations in manufacturing industry varies greatly from country to country, and the variations do not apparently conform to any uniform pattern. Regardless of the measure used, the transnational corporation' share of manufacturing in Canada is considerably higher than in other countries, being equivalent to about half the country's manufacturing activity. Moreover, the limited data suggest that the penetration of transnational corporations in Canada intensified during the 1970s, despite the Government's policies designed to arrest the penetration. In contrast, the share of

Table II.10. Degree of home-country concentration of affiliates, by region

Number of countries

Percentage of affiliates	Latin America		Africa		West Asia		South and East Asia		Europe		Total Developing Countries		Developed Market Economies	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
0 - 30.0	-	-	2	-	3	-	1	-	-	-	6	-	11	-
30.1 - 40.0	2	-	3	-	3	-	8	-	1	-	17	-	5	-
40.1 - 50.0	6	-	10	-	3	-	9	-	-	-	28	-	3	-
50.1 - 60.0	4	-	11	1	2	-	-	-	-	-	17	1	2	1
60.1 - 70.0	6	1	11	1	2	1	5	1	2	-	26	4	2	1
70.1 - 80.0	8	3	7	4	-	4	1	4	-	1	16	16	2	12
80.1 - 90.0	3	10	2	19	-	3	-	7	-	2	5	41	-	7
90.1 - 100.0	1	16	4	25	1	6	3	15	-	-	9	62	-	4
Total	30	30	50	50	14	14	27	27	3	3	124	124	25	25
Average percentage	62.0	89.8	61.5	88.3	49.2	87.1	52.1	90.4	57.2	79.0	58.6	89.7	78.5	39.3

A = Number of cases in which affiliates from the leading home country account for the specified percentage of affiliates.

B = Number of cases in which affiliates from the four leading home countries account for the specified percentage of affiliates.

Source: Annex Table II.20.

transnational corporations in manufacturing in Japan is extremely low, particularly if it is borne in mind that the data for that country cover enterprises with as little as 20 per cent foreign participation, whereas in most other countries the corresponding percentage is 50 or more. In the smaller industrialized countries (Austria, Belgium and, outside Europe, Australia and New Zealand) a higher proportion of their manufacturing industry tends to be accounted for by transnational corporations than in the larger countries. The notable exceptions are the Scandinavian countries which all have relatively low ratios, although foreign penetration in Sweden appears to be increasing. Although the United Kingdom is usually regarded as primarily a home country for transnational corporations, the data show that there was a marked increase in foreign participation in the United Kingdom economy in the 1970s, foreign companies being responsible for more than one-fifth of the United Kingdom's manufacturing output in 1977. For the Federal Republic of Germany, on the other hand, the data indicate a decline in penetration by transnational corporations during the first half of the 1970s.

107. In all the countries surveyed, foreign enterprises consistently accounted for a higher proportion of production than of employment, a finding which suggests that transnational corporations in the developed market economies tend to be in the less labour intensive industries or tend to achieve higher labour productivity. The more limited data concerning wages and salaries indicate that remuneration paid by transnational corporations tends to be higher than that paid by domestic enterprises, which is evidence supporting the view that foreign enterprises gravitate towards industries that use more highly skilled or more productive manpower.

108. While some of these data conform with the findings of the examination of foreign investment flows, they also throw additional light on the general picture, for, viewed in isolation, data on foreign direct investment flows give no indication of the importance of such flows in relation to the economy as a whole or in relation to corresponding economic aggregates such as domestic investment. For example, the United Kingdom recorded significant inflows of foreign direct investment during the 1970s, but it is only with the benefit of supplementary data that one can see the extent to which the foreign transnational corporations making the investments increased their share of United Kingdom industry. Canada became a relatively minor importer of capital in the 1970s (and a significant exporter) and yet transnational corporations apparently enhanced their position in the Canadian economy during that time. The Federal Republic of Germany, on the other hand, has become a net exporter of foreign investment while, at the same time, the role of foreign firms in its own economy has fallen.

109. Corresponding comprehensive data indicating the importance of transnational corporations in individual developing countries are not available, but some limited information is available from a few case studies. Data for some countries in Latin America suggest that the share of transnational corporations in manufacturing decreased in Brazil and Peru in the 1970s, but increased in Chile (Annex Table II. 24 and II.25). In both Chile and Peru, there was a significant decline in the share of transnational corporations in activities in the non-ferrous metals sector as a result of nationalizations; in Peru, there was also a significant decline in the participation of transnational corporations in the pulp and paper sector and in the tobacco industry, with some lesser decreases in the chemical and transport equipment industries. As a result, the share of transnational corporations in the capital stock in Peruvian manufacturing fell from less than a

quarter to less than one eighth in the short period between 1973 and 1975. In Brazil, the decline in the role of transnational corporations was less dramatic; their share of value added in all sectors is estimated to have fallen from some 34 per cent in 1969 to some 30 per cent in 1975; the share of transnational corporations in value added within manufacturing fell from about 42 per cent to 38 per cent in the same period.

110. Data are not available to show changes over time in transnational corporation participation in the Colombian manufacturing sector, but the available evidence for the mid 1970s suggests that the chemical, metalworking and paper industries accounted for over 70 per cent of the stock of registered foreign capital, whereas transnational corporations were relatively unimportant in the food products and wood products sectors (Annex Table II. 24). Firms in the first group of industries with foreign participation accounted for about 60 per cent of the output of the sectors concerned and were responsible for over 70 per cent of the sectors' exports, but for only 35 per cent of their employment.

C. Alternative forms of participation by transnational corporations in the economy of host countries

111. When the subject of transnational corporations first began to receive attention, analysis was concentrated primarily on foreign subsidiaries, i.e., foreign companies over which the parent company had a considerable degree of control, usually through the ownership of a substantial proportion (frequently a majority) of the foreign company's equity. While in the world as a whole foreign subsidiaries continue to be the principal form of the extension of transnational corporations into host countries, a variety of other forms of participation by transnational corporations in foreign economies have made their appearance in recent years. Sometimes referred to as "new forms" of foreign participation, these alternative arrangements include joint ventures, licensing, management contracts, franchising, turnkey operations, international subcontracting and a number of other contractual arrangements. Joint ventures usually involve two or more parties contributing to the equity and other assets of an enterprise and are an increasingly important alternative means of association with foreign enterprises, most particularly in developing countries. Although joint ventures usually call for equity participation, they are frequently included in the discussion of non-equity arrangements. The other alternative forms of association are more akin to sales transactions than to investment, since they usually do not involve a long-term ownership interest by one entity in another. Transnational corporations may engage in these non-equity forms of association on either an intra-firm or an arms-length basis; in either case, they represent an important alternative form of participation by foreign enterprises in the economy of host countries. 16/

1. Reasons for non-equity forms of association

112. The development of alternative forms of foreign participation has been motivated by forces emanating both from the transnational corporations themselves and from host countries. While the policies of individual host governments towards transnational corporations have varied greatly from country to country, there is probably, on balance, a greater degree of regulation of transnational corporations in developing countries than there was a decade ago. One of the important matters that are subject to regulation is the extent of foreign equity participation in domestic enterprises. A few developing countries do not impose any limitations in

this respect, and a few others prohibit foreign participation altogether. Between these two extremes, the majority of developing countries regulate foreign participation in varying degrees, generally through the adoption of universally applicable guidelines or on some selective basis, notably sectoral. While it is difficult to quantify the extent of this increased regulation of equity participation, the relevant policies of governments of developing countries have profoundly influenced the development of alternative forms of foreign participation.

113. Other general factors influencing the choice by both host governments and transnational corporations between equity and non-equity forms of foreign participation have been the diversification of the sources of investment and the growing managerial and technological capabilities of some of the developing countries in recent years. Among the developed countries, the technological lead of the United States is no longer as marked as it was in the 1950s and 1960s; in addition, other developed countries, notably Japan, now generate proportionately more investment capital within their own economies than does the United States. Secondly, a number of developing countries have made considerable progress in developing their capital and human resources since the beginning of the 1960s; some of them, in fact, now possess sufficient investment resources to meet their own needs and more. Such countries no longer require the conventional foreign direct investment package and need to resort to foreign enterprises only for some elements of the package. Even countries that are not in this position may consider it more advantageous to acquire the capital, technology and other elements of foreign direct investment separately.

114. One of the overriding factors influencing the choice between equity and non-equity participation is the value that the firm and the host government respectively place on the firm's marketable advantages and the costs and benefits of the options that are available for capitalizing these advantages. If the firm controls a new technology, it may consider that considerable costs would be involved if it were to risk the dissemination of this technology to competing firms by licensing it to another enterprise. The host country, however, has an interest in acquiring the right to utilize a particular technology as widely as possible. Particularly important in this respect is the market orientation of the product or products involved. If the output is to be a final good to be sold on the world market, the enterprise has to be fully competitive with similar firms in other countries. Hence, it needs to gain access to all the necessary know-how, including production techniques, familiarity with managing such enterprises, and access to markets. Moreover, in order to be price competitive, it also needs to obtain this know-how without incurring undue financial or other costs which would have to be reflected in the final price.

115. The extent of these costs depends on a number of factors. In technologically advanced industries, firms may wish to preserve, for as long as possible, the exclusivity of their technical knowledge or may insist on a relatively high price for it. Alternatively, firms already in an industry may possess advantages that potential new entrants cannot acquire on a non-equity basis. These may be advantages associated with size (in such areas as purchasing, production and marketing), but they may also be the result of a firm's long standing (for example, the existence of distribution networks and brand loyalty). Potential new entrants may not be able to offset these advantages or may be able to do so only by incurring additional costs. In industries where such conditions prevail, potential host countries may be prepared to bear the non-financial cost of the lower degree of ownership and control involved in an equity arrangement rather than enter into a

non-equity arrangement which might raise the cost of production. Considerations of this nature appear to have determined the types of association formed by local with foreign enterprises in developing countries that have been successful in expanding their exports in technologically intensive sectors, such as the newly-industrializing countries in South East Asia. Similarly, many of the countries that are promoting various forms of tax-exempt export zones are prepared to accept a higher degree of foreign equity ownership and control of firms operating in such zones than in their internal economies.

116. The assertion by developing countries of permanent sovereignty over their natural resources has resulted in a substantial increase of their ownership and control of significant areas of the primary sector, with a corresponding reduction of foreign equity ownership. Nevertheless, transnational corporations continue to control downstream operations, such as processing and marketing. Furthermore, despite the shift in ownership and control of natural resources, host governments continue to engage transnational corporations through a variety of contractual arrangements, such as joint ventures, service contracts, production sharing agreements, management contracts, compensation arrangements and technical assistance agreements in the extraction phase. Thus, while the developing countries may possess the advantage of control of the source of the raw material involved, transnational corporations frequently retain substantial benefits and advantages through the control of offshore transport, processing and marketing. In some instances, control of processing technologies makes transnational corporations the exclusive market for the raw material (e.g., the bauxite market is made up of the aluminium companies) while in other cases transnational corporations also control the market for the final product (e.g., their distribution systems provide the oil companies with control of the gasoline market). Consequently, while ownership and control of natural resources may provide the host government with significant benefits, the transnational corporation frequently remains in a position to obtain an economic rent not only from downstream operations but also by virtue of the above-mentioned contractual arrangements in respect of the extraction phase.

117. Non-equity arrangements have also tended to be relatively more common in industries supplying the domestic market. If the domestic market is protected by trade barriers, any costs incurred in unbundling foreign investment can be passed on to the consumer on the grounds that they are outweighed by the various economic, social and political benefits derived by the host country from domestic ownership and control of the industry concerned. These benefits vary from case to case and are difficult, if not impossible, to quantify because of their intangible nature; it is the prerogative of the host government concerned to weigh up the costs and benefits of a non-equity arrangement vis-à-vis conventional foreign direct investment.

2. Evidence of alternative forms of association

118. Information from both home and host countries provide an insight into the changing relative importance of the equity and non-equity forms of foreign participation, although relevant data are available for only a very limited number of countries. As far as investment originating in various home countries is concerned the evidence (Annex Table II.17) shows that there was a marked decline in the proportion of direct investment by British companies in fully-owned subsidiaries in several developing countries between 1974 and 1978. The total reported stock of the investment of United Kingdom companies in two host countries

(Ghana and Jamaica) fell between 1974 and 1978, probably as a result of nationalization. Of the remaining 25 host countries identified, fully-owned subsidiaries of foreign companies declined in importance in all but eight; in four of these eight the investment involved was relatively insignificant, so that the only countries where fully-owned subsidiaries became noticeably more important were Mexico, Pakistan, Singapore and Sri Lanka.

119. Only limited data are available from host countries concerning changes in foreign equity participation in domestic enterprises in developing countries. However, evidence from some of the newly industrializing countries appears to be consistent with the view that foreign equity participation has become relatively less important, but it also points to important differences among host countries. In Malaysia, for example, joint ventures were already by far the most common form of foreign participation in new investment projects in early 1970s, and became marginally more important as the decade progressed (Annex Table II.27). Of these joint ventures, some involved majority foreign participation; nevertheless in 1980-1981, five of every eight foreign investment projects approved by the Government involved minority foreign participation, although these enterprises accounted for only 50 per cent of the approved call-up capital.

120. In Singapore, joint ventures have increased in importance since the 1960s, but in this country wholly foreign-owned firms have also come to play a greater role in the economy, whereas the role of locally-owned firms in manufacturing has declined markedly (Annex Table II.28). This increasing role of foreign firms in the Singapore economy needs to be considered in the context of the export-oriented growth strategy which the country has followed in recent years. A host country's insistence on non-equity forms of participation may jeopardize success in export markets in the technologically advanced sectors such as those in which Singapore has been successful. The Singapore data suggest that subsidiaries of transnational corporations have been larger, more capital-intensive and more export-oriented than other firms. Joint ventures appear to have been more labour-intensive than both local and foreign firms, less export-oriented than wholly foreign-owned firms, but more so than wholly-local firms.

121. In the Republic of Korea, majority foreign-owned firms accounted for a decreasing proportion of both the number and value of the ventures approved as the 1970s progressed (Annex Table II.29). By 1980, some three-quarters of the firms in the Republic of Korea which had foreign equity participation were less than majority-owned by foreign enterprises; these firms accounted for almost two-thirds of the foreign direct investment in the country at that time. This contrast with the Singapore situation may be explained by the fact that, while the Republic of Korea experienced very rapid export growth in the 1970s, much of the flow of foreign direct investment into the country in that period was concentrated in industries supplying the domestic market and employing well-known technologies.

122. Brazil, a major destination for foreign direct investment flows in the 1970s, offers an interesting contrast with these three Asian countries because of the major role played by State-owned enterprises. Of Brazil's 200 largest non-financial enterprises in 1980, 82 were majority State-owned, 79 majority-owned by the Brazilian private sector and the remaining 39 majority foreign-owned. However, in only 21 of the 200 companies was there any significant sharing of ownership between domestic and foreign interests; six of these were majority State-owned, nine majority private sector-owned and six majority foreign-owned. 17/ The relative unimportance of joint enterprises in Brazil may be

attributable to the powerful presence of State-owned enterprises in the economy, particularly in the more dynamic sectors, without which greater foreign investment might have occurred.

123. Statistical evidence on the extent and growth of licensing and other non-equity forms of activity of transnational corporations in developing countries is also limited. Some developing countries collect data covering licensing and other technology arrangements, but there is less information about management contracts, franchising and other such forms of association with foreign companies, not least because both the nature and the variety of the transactions make data collection difficult. However, data are available for certain developing countries where technology contracts are required to be registered and screened by national regulatory agencies. In the case of India, for example, only about one-eighth of some 2700 licensing agreements entered into during 1970-1979 made provision for foreign equity participation, generally minority holdings. The total foreign equity participation involved in these cases was only $59.4 million. 18/ Most licensing agreements reported (about two-thirds of almost 6000 agreements registered since 1960) in India related to machinery and equipment.

124. In the Republic of Korea, the number of licensing agreements grew from about four a year in the first half of the 1960s to an average of 70 a year in 1970-1972, and to an average of over 250 a year in 1979-1980. Over 90 per cent of the licences concerned the manufacturing sector, with Japanese firms accounting for about 60 per cent and United States firms for a quarter. 19/ In Malaysia, the number of licensing or similar contracts entered into increased about fivefold between 1970 and 1979. 20/ In Mexico, payments for technology rose from $173.5 million in 1975 to $285.3 million in 1979. Less than 30 per cent of more than 8000 technology agreements registered during the period 1973-1979 related to Mexican enterprises with foreign equity participation. 21/

125. The parties to these contractual arrangements are of interest. In the Philippines during the 1970s, there was an increase in the number of licenses granted to joint venturese in which foreign enterprises held minority interest and in the number of licenses granted to enterprises without foreign equity participation. A survey conducted in 1978-1979 indicated that about a third of some 150 licensing agreements were with enterprises having no foreign participation in ownership. 22/ Of the remainder, about two-thirds were concluded with joint ventures with minority foreign participation and the remainder with enterprises with majority foreign participation. A survey of 40 firms in Singapore in the mid-1970s indicated that 12 out of 30 majority foreign-owned firms had concluded licensing agreements while only two of the ten majority domestically-owned companies had entered into such arrangements. 23/ A subsequent study of 30 firms in the electronics, electrical and metal fabrication industries in the same country showed that 14 of the 16 wholly foreign-owned firms had licensing agreements (one with a firm other than its parent company), while six out of seven joint ventures and three of seven domestically-controlled firms had entered into such agreements. Of 57 firms in the same industries surveyed in 1980, two of 18 domestically-owned firms, two of eight joint ventures and 10 of 31 foreign-owned firms had licensing arrangements; another two of the latter firms also had management contracts, one of them with the parent company. 24/

126. In the Republic of Korea, only about a quarter of the licensing agreements in the 1970s (but 40 per cent of the country's royalty payments) were made by subsidiaries of transnational corporations within the country; the majority of

those arrangements were between domestically-owned firms and foreign enterprises, suggesting that in these instances the country has been successful in using non-equity forms of association, rather than the full foreign direct investment package, to acquire foreign technology. 25/ Even so, the firm supplying the technology may be a transnational corporation and may even have affiliates within the country. Moreover, intra-firm non-equity arrangements are not unimportant in the Republic of Korea (and appear to be more important in Singapore), indicating that, for these countries at least, such arrangements constitute a useful additional form of the participation of transnational corporations in the economy.

127. Data from some of the developed market economies also provide an insight into trends in this form of international co-operation. It will be seen from Annex Table II.30, for example, that the income from fees and royalties paid to United States corporations rose considerably during the 1970s, with the proportion of the total originating in developed countries increasing faster than that from developing countries. The slower rate of growth of such payments from the developing countries may be attributable to the measures adopted by a number of these countries to control payments for the transfer of technology. Within developing countries, receipts from related concerns increased comparatively modestly, suggesting that non-equity contractual arrangements are not a rapidly expanding element of the relationship between United States transnational corporations and their affiliates in developing countries. However, receipts from unaffiliated foreign entities in developing countries grew faster than the average; it appears, therefore, that licensing and other similar arrangements with unrelated concerns were increasing in significance. Non-equity forms of association with unrelated United States companies in developing countries appear to have become more important. However, it should be noted that they do not yet constitute a major element of the foreign activities of United States companies; developing countries accounted for more than one-fifth of all fees and royalties paid to United States companies in 1979-81, and unaffiliated entities in such countries were responsible for less than one-fifth of that amount.

128. Receipts of royalties paid to United Kingdom companies (the great majority of which, particularly those originating in developing countries, were payments for technology or mineral rights) roughly quadrupled in the 1970s; receipts from developing countries grew at much the same rate as those originating in developed countries. 26/ However, as regards payments originating in developing countries, most of the growth occurred in receipts from related concerns, whereas the opposite was the case of payments from developing countries. In particular, there was an increase in payments from unrelated parties in Africa and Asia, while royalties and fees paid to United Kingdom firms by both related and unrelated concerns in Latin America appear to be decreasing in relative importance. This difference may be attributable to the fact that technology transfer payments tended to be subject to greater control in Latin America than in other regions. Over-all, however, the United Kingdom data conform with the other evidence suggesting increased use of licensing arrangements, particularly between unrelated parties. Nevertheless, a reservation about these royalty data, which applies equally to the United States data, is that licensing and similar contractual arrangements can serve as a transfer pricing mechanism for transnational corporations; this may serve to inflate the related party's share of these payments. Moreover, increased host government regulation of the remittance of profits may have encouraged transnational corporations to use contractual arrangements as a means of transferring funds.

129. The foregoing evidence suggests that a number of changes have occurred in the nature of the relationship between transnational corporations and enterprises in host developing countries. Probably the most significant and universal of these changes are the decrease in the importance of fully-owned foreign subsidiaries and the rise of joint ventures in which enterprises in the host country control some part of the capital, frequently 50 per cent or more, and are therefore in a position to participate in the firm's decision-making. Joint ventures are not a new phenomenon, but they have increased markedly in recent years. From a financial point of view, this change would appear to be more one of degree than one of substance, since the growth of joint ventures does not imply a cessation of conventional foreign direct investment flows, but rather reflects a change in the terms and conditions on which such flows take place. The creation of a joint venture and the establishment of a fully-owned foreign subsidiary abroad both involve the transfer of capital, directly or indirectly, from the home to the host country; it is primarily at the firm or operational level that the foreign enterprise's share in the local undertaking becomes relevant. The host country may consider that the higher degree of operational control that it can obtain through a joint venture undertaking provides a qualitative improvement in the value of any given financial flow; from this point of view, the increase in the number of joint ventures in recent years may be seen as enhancing the value of the flow of foreign direct investment to developing countries. The qualitative improvement perceived by the host country may, however, be more apparent than real, since dilution of ownership does not always result in any shift of control.

130. The policies of host governments were probably the single most important factor in fostering the growth of joint ventures in the 1970s. However, in order to realize the benefit of joint ventures, the host country has to possess the financial and other resources necessary to complement the foreign input; increased domestic resources are therefore necessary in order to enable developing countries to utilize joint ventures. However, there is always a question whether the resources employed for this purpose could be devoted to other uses of even higher priority.

D. Growth of the largest industrial transnational corporations, 1971-1980

131. Annex Table II.31 contains data concerning the 1980 sales, assets, earnings, employment and exports of more than 350 of the world's largest transnational corporations. 27/ Corresponding data were also collected for the years 1971 and 1976. 28/ 29/

132. These leading companies have more than 25,000 foreign affiliates;in 1980, they recorded sales of some $2,635 billion (equivalent to about 28 per cent of the gross domestic product of the developed and developing market economies in that year) and they generated net earnings of around $100 billion, equivalent to about 1 per cent of the GDP of the market economies. These firms employed some 25 million people (about one-quarter of total employment in the manufacturing sector in the developed market economies); the 164 firms for which data were available exported goods worth more than $200 billion in 1980. Further summary data on these corporations are contained in Annex Table II.32.

133. The data serve to illustrate a number of notable changes in the nature and extent of the activities of the leading industrial transnational corporations during the 1970s. As a group, they assumed an increasingly important role in the

world economy as the years progressed; the sales of the top 100 companies increased by almost 17 per cent per annum during the 1970s, whereas the gross national product of the market economies grew at about 15 per cent a year. One reason why the sales of these leading companies have grown more than the world economy is that the former were affected to a greater extent than the latter by the large increases in oil prices which took place during the 1970s. One result of these price increases was that petroleum companies are now the dominant group among industrial enterprises. In 1980, of the world's ten largest corporations seven were active primarily in the petroleum industry and two were automobile manufacturers.

134. Another factor contributing to the rapid growth of the largest corporations has been the scale of mergers and acquisitions. In a number of cases, these two tendencies have both been present; petroleum companies have featured in some of the largest takeovers in recent years. Significantly, however, the partners in these oil industry mergers and acquisitions have not always been firms in the petroleum sector; on the one hand, the oil companies have been active in acquiring non-petroleum firms, and on the other, some non-petroleum companies have acquired large oil corporations.

135. These examples from the oil industry are illustrative of the tendency for large firms to diversify their activities into areas which are not necessarily related to their primary lines of business. This diversification takes place not only in the domestic operations of firms, but also in their foreign activities. For example, it has been shown that more than one-fifth of the foreign operations of United States companies in 1968 were outside the industry of the parent company, whereas the proportion was only one-seventh in 1962. 30/ Part of this diversification was the result of new investment by the parent company; however, the acquisition of existing firms in industries other than that of the acquiring company may be assumed to have played an important role also. In the United States, for example, conglomerate acquisitions accounted for more than half of the assets acquired through large takeovers in the manufacturing and mining sector in 1978; in 1977, the proportion was more than three-quarters. 31/ Although these latest United States data do not refer specifically to acquisitions by transnational corporations, the same general pattern is likely to have applied to such corporations.

136. The growth and increased diversification of the largest companies has been accompanied by a higher degree of internationalization of their activities, as illustrated by the data in Table II.11. For the sample of leading companies, the proportion of their activities which took place outside their home countries appears to have increased steadily between 1971 and 1980. In 1971, foreign operations accounted for about 30 per cent of the sales of the companies examined; by 1980, this proportion had risen to about 40 per cent.

137. Within this over-all trend, there are differences between corporations from different home countries and from different economic sectors (Table II.12). The most notable development is the marked increase in the international component of the activities of companies based in Japan. Foreign sales of these companies accounted for less than a quarter of their total sales in 1971 - a smaller proportion than for companies based in most other countries; by 1980, foreign sales of Japanese companies were over 40 per cent of their total sales, a ratio similar to that for companies from most other countries.

Table II.11. Average foreign content of the operations of the world's largest industrial corporations

(Millions of dollars and percentage)

Item and year	Total (millions of dollars)	Foreign (millions of dollars)	Foreign share (per cent)
Sales			
1971	1 769	527	30
1976	3 797	1 339	35
1980	7 084	2 822	40
Net assets			
1971	956	300	31
1976	1 475	423	29
1980	2 417	803	33
Net earnings			
1971	83	41	49
1976	150	65	43
1980	266	140	53
Employment			
1971	61 318	23 958	39
1976	63 297	27 002	43
1980	68 669	31 914	46
Exports			
1971	271	-	-
1976	695	-	-
1980	1 344	-	-

Source: Annex Tables II.31 and II.32.

Table II.12. Foreign sales as a share of total sales for the world's largest industrial corporations by sector and by home country or region, 1971, 1976 and 1980

(Percentage)

Sector	1971	1976	1980	Home country	1971	1976	1980
Mining	...	44	42	Canada	...	...	48
Construction	...	...	48	France	44	49	54
Food and allied products	27	27	30	Germany, Fed. Rep. of	46	47	51
Paper	27	29	27	Japan	20	22	43
Chemicals	40	45	48	United Kingdom	29	28	41
Petroleum	21	37	49	United States	23	30	31
Rubber	...	...	37	Other W. Europe	53	57	62
Metals	24	26	36				
Machinery	31	36	38	All countries	30	35	40
Electronics	28	32	41				
Transportation	36	42	47				
All sectors	30	35	40				

Source: Annex Tables II.31 and II.32.

138. The data also permit an additional insight into the activities of United States transnational corporations. Foreign activities are not as important a component of the total operations of such firms as they are for transnational corporations from other countries. In 1971, 1976 and 1980, foreign operations consistently accounted for a smaller share of the over-all activities of the sample of transnational corporations based in the United States than of the activities of similar firms from other countries. The main reason is the much greater size of the United States domestic market. However, companies from the United Kingdom, which do not have an equally large domestic market, also had a lower foreign sales ratio than those from most other countries. Thus, while companies based in the United States and the United Kingdom continue to be those predominantly involved in host countries, foreign operations are not as important a component of their activities as they are for firms based in other countries.

139. Table II.12 also highlights the growth in the foreign components of the activities of corporations in the petroleum sector. The value of the total sales of the petroleum companies in the sample increased about eightfold between 1971 and 1980, but their foreign sales increased about 25 times - from about one-sixth to more than half the total. This special case aside, other sectors in which the sample companies were important (chemicals, metal fabrication, machinery and electronics) also registered an increase in the foreign share of their total activities between 1971 and 1980.

140. Broadly speaking, the foreign operations of a transnational corporation may represent either a horizontal or vertical expansion of its activities. In the former case, foreign affiliates tend to replicate, in whole or in part, the activities of the parent company, producing the same or closely related products for their respective markets. Horizontal expansion into foreign markets is essentially an alternative to exporting to those markets. In such cases, firms may view each foreign market, or a limited group of such markets, as a separate entity in which their affiliates operate with a large degree of autonomy. There may be some centralization in such areas as corporate financial planning, research and development, production technology, standardization of products and brand-names, etc., but subject to this qualification, affiliates are frequently given a high degree of independence. Industries in which this situation prevails may be described as multi-domestic, since the transnational corporation serves a number of independent markets; such a situation may be said to characterize, for example, the food and beverage industry.

141. Vertical foreign expansion, on the other hand, occurs where foreign affiliates are primarily suppliers to the parent company or purchasers of its end-product. The world's first transnational corporations, for example, were engaged mainly in raw materials industries; foreign affiliates of such corporations obtain raw materials which the parent company processes and sells in another market. The operations of the various affiliates of transnational corporations in the primary sector tend not to be autonomous since the outputs of one affiliate are often an essential input into the activities of another. Such companies are therefore required to take a far broader view of their operations; rather than fragmenting the world into a number of separate markets, they are frequently required to operate on a global basis.

142. The growth of the foreign activities of the world's largest transnational corporations can probably be explained in part by a move towards a similar globalization of a number of manufacturing industries. In certain industries,

transnational corporations are creating vertically-integrated networks of affiliates in which a subsidiary in one country may specialize in the production of only some components of the company's final product (e.g., engines in the case of the automobile industry). The parent company may be able to take advantage of any production economies of scale and to locate its production in accordance with each affiliate's advantages in terms of human and other resource availability (e.g. to undertake skill-intensive parts of the production process in countries with a highly trained labour force, to perform labour-intensive tasks in countries with low wage scales, etc.). Industries in which this trend is apparent include electronics, automobiles, watches, heavy electrical equipment and construction equipment.

143. This globalization of production has been made possible by developments in transport and communications; it has been encouraged by technological developments in manufacturing processes that lead to marked economies of scale. Globalization of industry must be expected to continue and will result in a growing interdependence of the world's economies. Increased economic interdependence, of which the globalization of industry is only a part, can bestow advantages on all countries, but the early years of the 1980s have demonstrated that it can also contribute to a spreading of contractionary trends around the world.

144. A possible second factor in the more rapid growth of foreign than of domestic activities is, paradoxically enough, the precise opposite of globalization. Increased protectionism - and hence declining economic interdependence - can also lead to the relocation of activities abroad. While it would appear that the more powerful of the two forces in recent years has been the trend towards globalization, it would be quite possible for the balance to shift, especially if economic stagnation and recession were to continue worldwide.

E. Transnational corporations and State-owned enterprises

145. State-owned enterprises have become powerful factors in the world economy. In 1962, the 483 largest industrial concerns in the market economies included 14 State-owned enterprises which accounted for 2.4 per cent of the total sales of these concerns. By 1978, the number of State-owned enterprises had increased to 37 and accounted for 7.8 per cent of total sales. 32/ In many of the developed market economies, State-owned enterprises have assumed a prominent role in the economy in the last two or three decades; some of these enterprises have set up operations in foreign countries, and most of them maintain extensive relationships with transnational corporations and their affiliates. However, in recent years the fastest growing State-owned enterprises have been those in certain developing countries where they act as competitors, suppliers, customers and partners to transnational corporations in the local economy; some of them have expanded their operations to other countries.

146. State-owned enterprises in market economies tend to predominate in industries or sectors that are considered of vital importance to the economy, such as energy, transport, primary commodities, some advanced technology sectors and, more rarely, banking; for strategic reasons, State-owned enterprises are particularly important in the petroleum sector. Among the market economies, large State-owned enterprises are more common in certain of the European countries (such as France and the United Kingdom) and in a few developing countries (for example, Brazil, India, Indonesia and Mexico).

147. For a variety of reasons, State-owned enterprises may also be transnational corporations. In the raw materials sector and in industries like shipping and air transport, firms operating in them, including State-owned enterprises, are virtually bound - if only for geographical reasons - to carry on activities abroad, either to acquire inputs or to market their products. In other cases, the governments of developed market economy countries have, for political, economic and social reasons, acquired companies which own a network of foreign subsidiaries. Alternatively, they may decide to enter industries (e.g., aerospace or computers) where an international operation is indispensable for economically efficient operation. Lastly, State-owned enterprises may be used as an instrument of the home government's commercial or foreign policy and may therefore be required by that government to undertake activities abroad.

148. In the developed market economies, more than 40 State-owned enterprises had sales of over $1 billion each in 1981 (Table II.13). About half of these were involved solely in domestic activities; of the remainder, about half could be considered directly comparable to private sector transnational corporations by reason of the internationalization of their activities. For example, ENI has more than 100 foreign affiliates, about half of which are in developing countries; British Leyland has some 90 affiliates and Renault over 60, at least a quarter being in developing countries.

149. In addition to fully State-owned companies, there are a number of transnational corporations in which the home country's government owns a partial equity interest (e.g. the British Government has a 48 per cent share in British Petroleum) and another group of companies which receive financial assistance or some other form of co-operation from the home government. Particularly relevant in this respect is the assistance which some governments provide to promote the international operations of companies based in their countries. As a result of these various mechanisms, a number of transnational corporations in the developed market economies conduct foreign activities that are heavily influenced by policies or directives of their home governments.

Table II.13 Major state-owned industrial enterprises in developed market economies

Company	Home country	1981 Sales (millions of dollars)
ENI	Italy	29 444
Elf-Acquitaine	France	19 666
Renault	France	16 230
National Coal Board	United Kingdom	9 795
DSM	Netherlands	7 376 a/
British Steel	United Kingdom	6,912
British Leyland	United Kingdom	5 814
ENPETROL	Spain	5 317
USINOR	France	4 632 a/
Charbonnages de France	France	4 290
OMV	Austria	4 271
Salzgitter	FRG	4 251
VOEST-Alpine	Austria	4 209
Cockerill Sambre	Belgium	3 925
Neste	Finland	3 786
Italsider	Italy	3 561
British Aerospace	United Kingdom	3 368
Norsk Hydro	Norway	3 361 b/
Statsföretag Group	Sweden	3 091
Aérospatiale	France	3 057
Iscor c/	South Africa	2 807 b/
Saarbergwerk	FRG	2 601
PETROGAL	Portugal	2 596 d/
Canada Development Corp	Canada	2 575
VIAG	Federal Republic of Germany	2 430 a/
Statoil	Norway	2 390
Rolls-Royce	United Kingdom	2 295
Petro-Canada	Canada	2 208
Tabacalera	Spain	2 177
British Shipbuilders	United Kingdom	2 104
Alfa-Romeo	Italy	1 811
Entreprise Minière & Chimique	France	1 577 a/
SSAB (Svensk Stal)	Sweden	1 444
SWEDYARDS (Svenska Varv)	Sweden	1 411
ENSIDESA	Spain	1 264
Hispanoil	Spain	1 222
SNECMA	France	1 189
Petroliber	Spain	1 170
SEAT	Spain	1 162
Butano	Spain	1 109
Enso-Gutzeit	Finland	1 047
Dalmine	Italy	1 033

Source: Fortune, 23 August 1982.

a/ Includes certain subsidiaries owned 50 per cent or less.

b/ Fiscal year ended 30 June 1981.

c/ Formerly South Africa Iron and Steel.

d/ Parent only.

Notes

1/ There were significant differences in the growth achieved by individual countries within each group, particularly among the developing countries. See, for example, World Bank, World Development Report 1981, Washington, D.C., 1981, Table 1.

2/ Both the GNP and the value of the trade of the developing countries as a group were heavily influenced by the large increases in oil prices which occurred in the 1970s.

3/ Salient Features and Trends in Foreign Direct Investments, op. cit., Tables 1 and 10.

4/ For example, the flow of foreign direct investment from Switzerland to the developing countries alone was $340 million in 1981. Organisation for Economic Co-operation and Development, Development Co-operation: 1982 Review (OECD, Paris, 1983), Table II.A.13).

5/ Organisation for Economic Co-operation and Development, External Debt of Developing Countries, 1982 Survey, op. cit.

6/ Ibid., p. 4.

7/ Ibid., Table A.

8/ Ibid., Table 12.

9/ These discontinuities were caused primarily by disinvestment in the petroleum sector by United States companies.

10/ Financial Times, 4 October 1982.

11/ The Banker, June 1982.

12/ Financial Times, op. cit.

13/ Loc. cit.

14/ Donald J. Lecraw, "Intra-Asian Direct Investment: Theory and Evidence from the Asean Region", UMBC Economic Review, Vol. XVI, No. 2, 1980.

15/ "Indian Transnationals on the Move", South, January 1982.

16/ The development of alternative forms of association of foreign firms with domestic enterprises has recently been the subject of a research project undertaken by the Development Centre of the Organisation for Economic Co-operation and Development. The results of this project are to be published in Charles Oman, New forms of international investment in developing countries (OECD, Paris, 1983).

17/ Oman, op. cit.

18/ Indian Investment Centre, Investing in India (New Delhi, 1982).

19/ Dirección General de Inversiones Extranjeras y Transferencia de Tecnología, Anuario Estadístico (Mexico, 1979).

20/ Bohn-Young Koo, "Status and Changing Forms of Foreign Investment in Korea" (Mimeo) (OECD Development Centre, 1981).

21/ Siew Ee and Kulasingham, op. cit.

22/ Transfer of technology regulations in the Philippines, document UNCTAD TT/32.

23/ Pang Eng Fong, "Foreign Direct Investment in Singapore", Preliminary Report (Mimeo) (OECD Development Centre, 1981), Table 7, p. 34.

24/ Ibid., Table 8, p. 37

25/ Bohn-Yound Keo, op. cit.

26/ Her Majesty's Stationery Office, Business Monitor MA4, Overseas Transactions 1980 (HMSO, London, 1982).

27/ Size is measured by the value of sales measured in United States dollars.

28/ These data are not contained in the present report, but are available from UNCTC on request.

29/ Information is not available on all of the items for each of the years; the analysis in this section and the statistics presented in the Annex are based on only those companies for which information on the item under examination was available for each of the years considered.

30/ George Kopits, "Multinational Conglomerate Diversification", Economia Internazionale, February 1979.

31/ United States Federal Trade Commission, Statistical Report on Mergers and Acquisitions, 1978 (Washington, D.C. 1980), Table 19.

32/ J. Dunning and R.F. Pearce, The World's Largest Industrial Enterprises (Gower, Farnborough, 1981).

Chapter III

POLICIES WITH RESPECT TO TRANSNATIONAL CORPORATIONS

Introduction

150. Government policies towards transnational corporations have not changed fundamentally over the past five years, although the deteriorating international economic setting has had a considerable influence on these policies. Oil importing developing countries have been concerned to maintain the momentum of their economic growth to the greatest extent possible in the face of worsening terms of trade and severe pressures on their balances of payments. Partly because of the gravity of their economic problems and partly because of their increasing experience in dealing with transnational corporations, the policies of many developing countries have shown greater pragmatism, flexibility and sophistication. At the same time, the building up of national capabilities and efforts to harmonize the activities of these corporations with their national objectives have come to occupy an important place in the policy framework of host developing countries.

151. The persistent world recession has also affected the traditionally liberal policies of many industrial countries, both as exporters and as importers or capital. A consideration of growing importance in the policies of these countries has been the perceived impact of outflows and inflows of direct investment on the level of employment and business activity. Home countries of transnational corporations are also becoming more concerned about safeguarding their interests, especially as regards the distribution of economic gains associated with the activities of these corporations, and the effects on such distribution of efforts by host countries to obtain a greater share of the gains.

152. At the international level, a number of fledgling efforts of the mid-1970s to establish international instruments concerning the activities of transnational corporations have either come to fruition or are close to it. These efforts derive from the recognition that the global nature of these 3orporations calls for a global regime. Many of these international instruments have taken the form of codes of conduct. As these instruments break new ground in international law, their significance will only become clear in the years to come.

A. Host developing countries

1. General considerations

153. The policies of developing countries towards transnational corporations are very diverse, depending on the political and economic philosophy, resource endowment, development strategy and the level of industrial and technological capabilities of the country concerned. They may also vary over time in one and the same country - the variations reflecting evolutionary or even abrupt changes - in response to shifts in political or economic orientation and constraints imposed by internal and external factors. Even where policies appear to be similar, the approach and emphasis with regard to objectives and details may vary according to domestic needs and circumstances.

154. For the purpose of analysing recent trends in the policies of host developing countries towards transnational corporations, three main groups of developing countries may be distinguished. First, there are those countries which have been unable to attract substantial investments by transnational corporations, despite their maintaining open-door or liberal policies towards them over the past two decades, because of the small size of their markets or because their natural resource endowments are limited. The countries in question are mostly the smaller countries in the African, Caribbean and Pacific regions. The second group consists of a limited number of developing countries (including China, Cuba, Egypt, Guinea, Nicaragua, the United Republic of Tanzania, Viet Nam) that had originally excluded or severely restricted the participation of these corporations in their economies but have, in recent years, significantly modified their policies in this regard. The third group comprises a number of developing countries with sizeable markets that have attracted the bulk of the foreign investment flows to the developing world. The policies of most of these countries (e.g. Argentina, Brazil, Chile, India, Indonesia, the Republic of Korea, Mexico and Venezuela) have generally gone through two distinct phases within the past decade, and provide examples of some of the more notable developments with respect to recent trends in this area. Cutting across the above categories are the countries which are well endowed with natural resources and in which the special characteristics of particular resource industries dictate a set of policies significantly different from those applicable to other sectors.

155. The countries in the first category have not materially changed their basically liberal policies in recent years. Most of them have had recourse to internationally available technical assistance to sharpen their negotiating skills in their dealings with transnational corporations and, in some cases, to rationalize their legal regimes governing the operations of the corporations. But the investment laws and policies of these countries are still preoccupied primarily with regulating the entry of foreign investment and the provision of substantial incentives for foreign investors. Most of these countries are net importers of petroleum and are intensifying their efforts to promote new investment flows to relieve severe external and internal economic pressures.

156. Policies of countries in the second group have been significantly modified. China (1979) and Cuba (1982) have enacted joint venture laws providing for the participation of transnational corporations in joint ventures with local entities. China has undertaken an ambitious programme involving foreign companies in the development of its petroleum resources through various types of contractual arrangement. Both Guinea and the United Republic of Tanzania, which had previously restricted foreign participation in their economies, have signalled their readiness to welcome increased foreign investment flows.

157. No less significant have been the changes in the policies of the countries in the third group within the past ten years. In the early 1970s, fortified by their strengthened bargaining position as the centres of economic growth and as recipients of investments by transnational companies in the developing world, most of these countries introduced rigorous regulatory regimes for foreign investment and technology. The basic objective of such regimes was not to discourage foreign investment or diminish the flow of foreign resources, but to regulate them. These regulations provided inter alia for the screening and registration of foreign investment; the prohibition or restriction of foreign participation in specified sectors; the control of take-overs; the restriction of foreign capital to minority holdings in certain sectors; specific regulation of technology agreements; the

prohibition of restrictive business practices; and performance requirements for subsidiaries of transnational corporations, such as requirements relating to exports and integration with the domestic economy. However, since the mid-1970s, many of these countries have initiated policies and strategies that depart in certain significant respects from these earlier regimes. These new policies on the whole portray a more flexible and pragmatic approach aimed at facilitating and speeding up foreign investment inflows.

158. Several factors account for these policy changes. Many developing countries have in recent years been beset by severe balance of payments difficulties and sluggish economic growth. External pressures upon them mounted as a result of the deterioration in their terms of trade, the acute weakness of export markets associated with the recession in industrial countries and the rise of protectionist barriers in these countries. Several of the developing countries had to struggle, in addition, with staggering external debt-servicing burdens, aggravated by unprecedentedly high real interest rates. The establishment of an attractive climate to encourage the inflow of foreign capital and the reinvestment of earnings that would otherwise be remitted abroad, and the promotion of export-oriented or import- substituting investments therefore become a matter of added urgency for these countries. The need to stimulate such investments in order to sustain economic and industrial development in line with their national plans was a further reason for reshaping policies in the direction of promoting the acquisition of capital, technology, market access and managerial expertise from transnational corporations.

159. Apart from economic necessities and constraints, another important factor has been the growing experience and expertise of developing countries, in particular of the third group, in dealing with transnational corporations. Their knowledge and information base have widened and the growth in the entrepreneurial, managerial and technological capabilities of domestic private and public sector enterprises has strengthened their capacity to evaluate foreign financial and technological participation and to negotiate advantageous business arrangements with foreign enterprises. In some of the developing countries, local enterprises are increasingly exploring investment opportunities in other countries in competition with corporations from industrial countries. Furthermore, the options open to developing countries on the international market for obtaining desired inputs are increasing with the growth in the number and variety of foreign enterprises, including small or medium sized firms, that can provide them. For their part, the transnational corporations also have exhibited a resilience in adjusting to the policies and requirements of host countries. Indeed, the growing variety and complexity of the arrangements between developing countries and such corporations is a reflection of this interaction between the host countries' capabilities and the responses of transnational corporations. In some countries, the shift in policies resulted from changes in the political complexion of governments in the direction of market-oriented philosophies permitting only minimal governmental restriction of foreign investments.

160. Whatever may have been the external and internal factors that induced them, these changes were duly reflected in the policies, laws and regulations of the countries concerned. In Argentina, the foreign investment law of 1973, which had strengthened the regulatory regime, was considerably softened by new regulations introduced after 1976. Its transfer of technology law of 1974 was replaced by a more flexible and moderate regime in 1977, and eventually by a 1980 law that virtually eliminated all substantive governmental control. One manifestation of

Chile's new liberal policies was its withdrawal from the Andean Group with its Common Regime for Foreign Investments. Peru and Venezuela, while remaining members of the Andean Group, have accorded high priority to private foreign investment and have shown considerable flexibility in the application of the Common Regime. The Republic of Korea's Foreign Investment Guidelines were significantly relaxed in the late 1970s, in particular as to joint ventures, technology regulation, and other legal conditions. The Philippines embarked on a policy of liberalization as from 1975, culminating in an omnibus Investment Code of 1981 that proclaimed an open door policy to foreign investors. Pakistan's guarantees and incentives for foreign investments were expanded after 1977. Other countries where flexible or liberal foreign investment regimes have replaced nationalistic control-oriented regimes include Bangladesh, Bolivia, Jamaica, Sri Lanka and Uruguay.

161. In all or most of the countries in the third group, as well as in a number of other developing countries, certain features of recent developments stand out. First, within the framework of basic objectives and regulatory mechanisms, there is a growing emphasis on planning for and promoting the inflow of desired foreign investment and technology into specified priority sectors. Secondly, there is increasing emphasis on performance requirements for foreign enterprises, particularly the increase of local content, export commitments and the transfer of technology. Thirdly, policies and programmes have been adopted with a view to building up national technological and managerial capabilities.

2. Main elements of policies of developing countries in sectors other than natural resources

162. In the light of recent trends, it seems that some of the major policies of developing countries toward foreign direct investment concern essentially five substantive areas, namely, definition of permissible and priority sectors for investment, domestic ownership and control, performance requirements, access to domestic financial resources and investment incentives.

3. Setting investment priorities

163. There is increasing sophistication in the establishment of investment priorities in the countries that attract significant activity on the part of transnational corporations. The delineation of priority areas for foreign investment has typically been approached from two angles, namely, areas that are reserved exclusively for domestic investment, and areas that are open to foreign direct investment, and within this category, those that have priority in the economic development plan or programme of the country.

164. Many developing countries (e.g., Brazil, Egypt, Ghana, India, Mexico and Nigeria) have reserved certain sectors and activities exclusively for the State, and neither their own nationals nor foreign investors are permitted to operate in such "closed" or "reserved" areas. The range of such closed areas varies from country to country, depending on its development strategy and level of development. But typically, strategic or sensitive industries, public utilities, industries where domestic capabilities or domestic production are regarded as adequate, and industries and activities that can be undertaken through small and medium sized enterprises or in the "tiny or cottage sector" are reserved for national investment. In several countries, in order to preserve small and sometimes medium sized industries for nationals (and perhaps also by the reasons of the consideration that foreign investment must be of a worthwhile magnitude),

reservation is based on the size of the investment needed and sectors calling for investments of less than a prescribed minimum size are closed to foreign enterprises.

165. Even where foreign direct investment is excluded from the reserved sectors, developing countries may seek foreign technological participation in them either in order to acquire essential know-how or so as to upgrade existing technical skills and capacities. Some of the more significant technological arrangements between transnational corporations and national entities are to be found in areas reserved exclusively for State ownership, such as the electrical generating equipment, basic petrochemicals, steel, aluminium, telecommunications and like sectors.

166. In determining the priority areas for investment, developing countries are coming more and more to recognize that foreign investment policy should not be viewed in isolation, but should be regarded as an integral and coherent part of the national overall economic and industrial development strategies, with self-reliance as a principal objective. Once the priority areas are identified and their conformity with and potential contribution to national development objectives have been verified, the further issue whether foreign investment is needed to establish projects in those areas, and if so of what magnitude and on what terms, is resolved in line with policies regarding ownership.

167. The determination of priority areas is typically approached from two angles, namely, functional and sectoral. From the functional point of view, the policies specify the type of foreign investment that is preferred, while from the sectoral point of view, they indicate the specific sectors, sub-sectors, industries or activities which are regarded as of priority in the national developmental plans and to which investment and technology flows will be encouraged.

168. A wide range of objectives on the functional plane can be seen in the policies of some developing countries (e.g., Benin, Ivory Coast and Liberia). In general, however, the principal objectives include the following: the attraction of capital for large and complex projects beyond domestic capacity; the transfer of technology and technical skills not locally available, particularly advanced or modern technology; the acquisition of managerial and organizational expertise; generation of exports; substitution for imports; foreign exchange earnings; balance of payments support; creation of employment and training of nationals; utilization and processing of domestic raw materials and natural resources; creation of forward and backward linkages with domestic industry; promotion of competition and industrial efficiency; and balanced regional development through dispersal of industries. The emphasis attached to the one or the other of these objectives and the encouragement given to investment seen to be conforming to them vary from country to country, in the light of developmental objectives and circumstances.

169. The determination of the priority areas from the sectoral point of view - which in essence is an exercise in national industrial development planning - is, however, the more crucial and also the more difficult task. The approach of developing countries has varied from the publication of an indicative list of priority industries, showing only the sectors or sub-sectors or industries considered to be of a priority nature, to the elaboration of detailed sectoral programmes giving a blueprint for the long- term development of the sector, including market potential, physical targets, technological and investment requirements and the like.

170. Depending on the experience and expertise of the developing country concerned, the content and coverage of the planning exercise vary. As countries move up the industrial and technological ladder and their own capabilities widen and deepen, their approach becomes increasingly selective and sectoral planning and specialization receive greater emphasis. On the other hand, countries in earlier stages of industrial development tend to adopt a more open stance and indicate in broad terms the sectors or industries regarded as of a priority nature by reference to equally broad functional criteria.

171. The task of harmonizing the investments and operations of transnational corporations with national developmental goals is complex and difficult and is one of continuing concern to many developing countries. Recent trends in the policies of host countries suggest that it is increasingly realized that a careful selection of areas for priority development and promotion of investment and technological flows conforming to those priorities is indispensable in framing the policy governing inward investment. The regulation of foreign participation in other respects, however well designed, can be weakened and the overall benefits and costs to the national economy may be affected if the areas for foreign participation and the contributions to be made by it are not defined as carefully as possible.

4. Domestic ownership and control

172. The promotion of effective national participation in the ownership and management of the local operations of transnational corporations continues to be a major policy objective of a number of developing countries. The preferred strategy, in most cases, is the formation of joint ventures between local and foreign enterprises. This preference does not, however, imply that majority-owned or fully-owned subsidiaries of foreign enterprises are entirely excluded. Generally, majority foreign ownership is permitted in ventures that have been designated as "priority", "pioneer" or "promoted" industries or in ventures that are based on sophisticated technology in countries such as the Andean Group countries, the ASEAN countries, Bangladesh, Brazil, Ghana, Ivory Coast, Kenya, the Republic of Korea, Mexico, Nigeria, and Pakistan. In many of these countries (e.g. the Andean Group countries, Indonesia, the Philippines) domestic ownership should, however, be increased to a majority position according to a specified time bound programme. On the other hand, majority domestic participation, even from the beginning, is generally the rule in countries such as Brazil, China, India, Indonesia, the Republic of Korea, Malaysia, Mexico, Nigeria, Pakistan, the Philippines, Sri Lanka, and Yugoslavia if the ventures are in low priority areas and are primarily directed towards the domestic market. A common feature of the policies of almost all developing countries is that export oriented ventures, especially those located in export promotion zones, are accorded preferential treatment, including authorization of full foreign ownership and freedom from exchange controls for ventures that export almost their entire output.

173. Apart from the stipulation of domestic ownership requirements at the entry stage for new foreign invesments, the dilution of foreign ownership in existing enterprises established long before the current regulatory regimes received particular attention in some developing countries in the latter half of the 1970s. The most comprehensive dilution programme was that carried out in India between 1977 and 1980 under guidelines issued pursuant to the Foreign Exchange Regulation Act, requiring companies existing on 1 January 1974 to dilute their foreign ownership to 74 or 51 or 40 per cent, depending on the nature and character of their activities. Nearly 400 enterprises were directed to dilute their foreign

ownership, while about 200 enterprises were unaffected, either because they had already reduced their foreign ownership to less than 40 per cent or because their existing level of foreign ownership was between 40 and 74 per cent and the proportion was permissible under the guidelines. The programme was carried out largely through the issue of shares (in consequence of an increase of the share capital or divestment of existing foreign equity or a mixture of both) to the Indian public through the stock exchange mechanism, resulting in the addition of nearly one million shareholders in the companies and making many of them public limited companies for the first time. The dilution of foreign ownership in existing established enterprises through offer of shares to nationals, either through stock exchange mechanisms or otherwise, is taking place increasingly in Indonesia, Malaysia and Pakistan also, while in the African region Ghana, Kenya and Nigeria have attempted it.

174. It is possible to discern a certain crystallization of thinking regarding the policy framework in many developing countries. Fundamentally, the policies continue to reflect the concern of developing countries that foreign capital investment may impinge on national control (and even national sovereignty) and that a high proportion of foreign capital ownership can have other undesirable consequences. However, they are also designed to achieve a variety of political and economic objectives such as self-reliance, promotion of indigenous entrepreneurial and managerial development, saving of foreign exchange in the long run, diffusion of ownership, building up of domestic capital markets, directing foreign enterprises into priority areas and the like. The policies also reflect the conclusion reached by a number of developing countries, often based on experience, that dilution of foreign ownership through persuasion or negotiations could be a difficult proposition and that a preferable approach may be to lay down the requirements at the entry stage itself through statutory enactments and regulations, investment approvals or contractual arrangements. Finally, in countries which apply the same company legislation to all enterprises that are incorporated or organized locally regardless of their pattern of ownership, and which accord a significant role to the national private sector in industrial development, the view is often taken that meaningful domestic participation in an enterprise is possible only with significant domestic equity ownership in the venture from the beginning.

175. In parallel with the evolution of a basic policy framework for domestic ownership, most developing countries have shown increased flexibility and pragmatism in the implementation of their domestic ownership policies in recent years. Generally, their aim has been to allow a reasonable period, reasonable phasing and a reasonable minimum level of foreign ownership at the end of the dilution process which is adequate for a foreign investor to continue to exercise an effective voice in the management of the venture. This is not to say, of course, that their judgement of what is "reasonable" is necessarily accepted in all cases by the transnational corporations involved.

176. Other countries which do not follow a dilution policy with regard to foreign investments approved under the current regime allow a substantial degree of foreign ownership in ventures regarded as contributing to the realization of national objectives. Furthermore, where a pre-set dilution obligation is stipulated, opportunities are afforded for dilution to be effected not necessarily through divestment, but also through an expansion of the capital base of the ventures for purposes of expansion or diversification and the offer of additional capital to domestic investors.

177. Some developing countries have linked the level of fiscal and financial incentives or eligibility for treatment on a par with national companies to the degree of domestic ownership in the venture. Since the level of foreign ownership allowed, even if it is a minority participation, is usually sufficient for the foreign investor to have a reasonable assurance of effective and profitable participation in the venture, this serves as an inducement to a voluntary limitation of foreign equity ownership. In general, the implementation of policies suggests that it is dilution of foreign ownership and not so much dilution of foreign control or foreign share of profits that is sought. It is likely, however, that in some cases governments assume that majority domestic ownership will lead to a shift in control, although it is far from clear that this is the usual result.

178. Policies of developing countries with respect to domestic ownership and control have three major facets: domestic ownership, employment of national personnel at managerial levels and domestic control at the enterprise level. Regulations applied by developing countries, together with the changing strategies of transnational corporations themselves in limiting their capital exposure in developing countries without unduly sacrificing their total take from the ventures, have enabled them to make substantial progress towards augmenting domestic ownership, without such policies, by and large, adversely affecting their interests or their investment climate. Performance requirements applied for the training and employment of nationals at managerial levels, as well as general policies towards the employment of expatriate personnel and the increasing availability of nationals of sufficient calibre in many developing countries, have led to tangible advancement in the second area also, namely, the employment of national personnel at managerial levels.

179. However, domestic control at the enterprise level - in the sense that key decisions are taken at the level of the enterprise according to its own judgement and in accordance with local needs and priorities, and not subject to the approval and dictates of the parent company - continues to be elusive for most developing countries. As their experience shows, the reason is that transnational corporations operate according to a global strategy and exercise effective control over local affiliates not only with equity ownership (majority or minority) but also, more importantly, through their control over technology, trademarks, marketing, supply of essential inputs and the like. In many cases, separate management contracts or other contractual or corporate arrangements give implicitly or explicitly the effective control of ventures to transnational corporations. The problem, which is formidable even for developing countries with a relatively advanced industrial and technological base, is aggravated by the paucity of local expertise in many developing countries.

180. These considerations may explain why increasing attention is being paid in many countries to two related aspects of their policy framework. The first concerns measures to strengthen national entrepreneurial, managerial and technological capabilities in order to make domestic participation active and meaningful. The second is to focus on the overall economic regulation of such enterprises (as regards, for example, the areas of their operation or the activities that they may undertake, their performance requirements, disclosure of information, etc.) through national laws and regulations, instead of emphasizing enterprise-level control through ownership requirements.

5. Performance requirements

181. The policies of some developing countries focus increasingly on the specific contributions or performance obligations to be undertaken by enterprises receiving foreign financial or technological participation. This is particularly evident in countries in the third group that have gained some experience in dealing with foreign investment and that offer access to a relatively attractive domestic market. The major performance requirements generally take the form of export obligations, utilisation and processing of domestic raw materials and natural resources, increasing the local content of the manufacturing programme, local sourcing of supplies, employment generation, training of national personnel and the location of projects in designated areas.. Furthermore, in the case of host countries that regard the acquisition of advanced technology as a key policy objective, the full transfer of technical know-how, including improvements, is an important obligation to be undertaken by the foreign technology supplier. Likewise, the setting up of domestic R and D facilities and utilisation of domestic engineering and consulting services are also stipulated as important performance requirements of enterprises.

182. There is a growing recognition on the part of developing countries that performance requirements should be realistic and that it is preferable to concentrate on a few key requirements instead of proliferating requirements, some of which may be incompatible with one another. This is apt to be the case particularly where the emphasis on increasing the local content of production is combined with ambitious targets for export expansion.

183. Performance requirements are not unique to developing countries. Some developed countries also lay down performance requirements, including the utilization of local labour and other local inputs, and the transfer of advanced technology. The pressure to apply such requirements increases during periods of recession and unemployment.

184. Some developed countries, on the other hand, have suggested that such performance requirements, imposed and subsidised by State intervention, distort international trade and investment flows and should be eliminated, as should the competition to support them through "incentive wars". Avoidance of performance requirements is also sought, explicitly or implicitly, in recent bilateral investment promotion and protection agreements with developing countries.

185. There is always a possibility of distortion arising from performance requirements that seek to enhance the local content of the output. There are plenty of clearly documented cases in which such requirements have been even more costly for the host country than for the transnational corporations themselves. But there is no difference in principle between such requirements and other forms of infant industry protection, and the need for such protection is not disputed in the literature of economics. In fact, all presently developed countries employed strong measures of protection at one time or another in the course of their industrial development. The issue is not one of principle but one of the application of the principle in practice, and the same caveats apply as in any programme of protection. In other words, protective measures, whether they take the form of tariffs, subsidies, or of performance requirements relating to local content, should observe certain criteria. It should be clear that the industries so protected can reasonably be expected to become viable without protection within the foreseeable future. The gains in the longer run should be sufficient to offset

the losses in the short and medium term. And the method of protection employed should be the most efficient and least costly of all methods of protection available.

186. The monitoring of the performance, in the widest sense, of transnational corporations continues to be a weak link in the regulatory mechanisms of most developing countries, partly because the host country's staff is not capable of undertaking the skilled investigations required and partly because of difficulties in securing adequate standards of reporting by the corporations. It is much easier to stipulate time-bound targets for the local content of production than to verify whether the targets have been achieved, especially where the prices of components imported by an integrated enterprise cannot be determined on the arm's length principle. Abusive transfer pricing as well as, more generally, the incorrect invoicing of exports and imports, whether intra-firm or otherwise, can, of course, be employed for a variety of purposes, including the reduction of tax burdens, the evasion of exchange control and forestalling any adverse effects expected by a company as a result of making windfall profits. Concerns about such matters are common to both home and host countries, and have given rise (as indicated below) to special investigatory procedures by the tax authorities of a number of industrial countries. It is, in the nature of the case, impossible to say how serious or widespread the abuses may be, but the rapid growth of funds deposited in tax haven countries has been interpreted as possible evidence of a growing practice.

6. Access to domestic financial resources

187. Policies of developing countries policies regarding access by foreign enterprises to domestic medium-term and long-term finance vary according to policy objectives and to the availability of domestic resources. Apart from capital-intensive projects which call for large-scale financing, the policies range from prohibition or limitation of access by foreign enterprises to domestic financial resources to an absence of limitations and even a preference for the utilisation of such resources.

188. The trend towards joint ventures and limitations on foreign equity, the preferential treatment accorded in a number of developing countries by the grant of fiscal and financial incentives to enterprises with a higher degree of domestic ownership and the growing tendency on the part of foreign investors themselves to minimise their equity exposure - all these have the effect of either minimising the proportion of the capital investment financed from external resources or of enhancing the equity base of the venture (vis-à-vis debt). Under these conditions, there may be recourse to a larger volume of domestic finance, whether equity or loan capital, or to a larger volume of foreign borrowing (whether as suppliers' or buyers' credits, loans from parent companies or affiliates, loans from the export credit agencies of the home country, etc.).

189. As regards the method of raising domestic equity capital and the question of domestic and foreign borrowing, however, there are significant differences in the approaches of developing countries. In some developing countries, as noted earlier, the offer of equity shares to the public through stock exchange mechanisms is being promoted actively. In others, the equity share capital reserved for nationals is taken up by State-owned financial agencies that subsequently distribute the shares among nationals. The provision of financial assistance to local private entrepreneurs to enable them to enter into joint ventures with foreign investors (instead of State-owned development finance institutions

participating in all such ventures directly) is also gaining ground in some countries (such as Ghana, Kenya and Nigeria). Where a scheme of regional integration is to be fostered, the widening of the definition of "national capital" is receiving attention so as to accord a preferential position to investors from other member countries of the regional grouping.

190. While access to domestic equity capital is thus being enlarged in a number of cases, policies with regard to access to domestic loan capital vary. In some developing countries that are relatively resource-rich, there are no limitations on domestic borrowing and the domestic capital market is sufficient to supply the bulk of the financing requirements. In others, there may be no limitations in principle but the supply of domestic resources may be so small that foreign credits become inevitable. In still other countries, access to domestic loans is not restricted, but foreign borrowing is not ordinarily permitted except to the extent of financing the foreign exchange component of the project. Such countries usually receive tied bilateral official aid (often as grants or highly concessional credits) which may be used only for the import of capital goods and equipment from the donor country. Some countries resort to centralised borrowing by their development finance institutions, which then channel the resources to individual enterprises. This makes it possible to borrow at lower cost than would be incurred if a number of relatively smaller foreign investment packages were arranged by the enterprises separately.

191. A number of developing countries (Brazil, Kenya, the Philippines) have placed limitations on local borrowing in proportion to the extent of foreign ownership in the venture. These range from outright prohibition, in the case of majority owned foreign enterprises, to a graduated scale varying with the proportion of foreign ownership. Scarcity of local finance and the view that the higher degree of foreign ownership must be compensated for at least to some extent by higher foreign contributions to the total financing of the project are generally the rationale of such policies. While there are certain advantages in this approach, a disadvantage is that the external debt burden is thereby aggravated and it may be necessary to regulate debt-equity ratios (to avoid taxable income being disguised as nontaxable interest) as well as the terms and conditions of the foreign borrowing. Such regulation may, however, be regarded as advisable in the light of broader considerations.

192. There has, if anything, been less of a tendency on the part of developing countries to insist on reinvestment of earnings as a form of performance requirement. Countries that have had long experience in allowing free remittances of profits and capitalisation of retained earnings have continued that policy. Countries that have reviewed existing or enacted new legislation or regulations in recent years have also generally followed this approach. In some other countries which limit remittances of profits and require reinvestment of earnings, the restrictions have been eased to some extent in a direct or indirect manner. On the other hand, indirect methods may be employed to stimulate the voluntary reinvestment of earnings. Such methods include the encouragement of an expansion or diversification of foreign enterprise into priority areas, requiring a substantial commitment of retained earnings. It is inevitable, of course, that the objectives of indigenisation and of encouraging the reinvestment of retained earnings may conflict with one another.

193. In the case of highly capital intensive projects, such as resource development or infrastructure projects, oil refineries, petrochemical, fertilizer and steel plants, and the like, the mode of financing the project plays a crucial part in determining the type of arrangements employed. By and large, these projects are financed from external sources, and given the capital outlays needed and the risks associated with them (including the growing tendency on the part of transnational corporations to distribute the outlays and the risks among several partners), consortium arrangements are becoming increasingly commmon for the financing, technology supply, construction and operation of such projects. A variety of inter-linked contractual arrangements involving various types of transnational corporations as well as transnational banks and international financial institutions is usually needed for their establishment.

7. Investment incentives

194. Developing countries offer a number of tax, tariff and financial incentives to stimulate both domestic and foreign investments and to serve a great variety of objectives. In several cases, the chief recipients of such incentives may be transnational corporations because of their substantial investments generally in a country or because of their operations through fully or majority owned subsidiaries and their substantial participation in joint ventures.

195. Although there have been no fundamental changes in the incentive policies of developing countries in recent years, there has been a trend towards a liberalization of incentives designed to promote particular activities or sectors. This is particularly the case of incentives aimed at the expansion of manufactured exports (e.g. Bangladesh, India, the Philippines, Sri Lanka, the United Republic of Tanzania) or dispersal of industries away from metropolitan and towards less developed areas (e.g. Brazil, Mexico, Thailand). A noteworthy development is the wide range of benefits - such as double deduction for tax purposes of expenditure on research and development (R and D), investment allowances of up to 50 per cent for capital spending, deduction of the lump-sum payment made for obtaining a manufacturing licence, accelerated depreciation of plant and machinery used in R and D, and a 25 per cent initial allowance followed by a 3 per cent annual allowance for R and D buildings - offered by Singapore to firms that initiated major R and D activities in Singapore after 1 January 1981. This liberal treatment is an important part of the strategy of the Government of Singapore to attract and promote high technology industries. With a view to promoting scientific and technological self-reliance, India offers investment allowances at a higher rate of 35 per cent (as against the normal rate of 25 per cent) in respect of plant and machinery expenditure incurred after 30 June 1977 if the production is based on domestic technology, technical know-how and processes. In addition, 133 1/3 per cent of the expenditure incurred on sponsored R and D is deductible from the taxable income of a firm, while capital expenditure on R and D is allowed as fully deductible for tax purposes in the year in which it is incurred (instead of being amortized over five years as was the case previously).

196. Another noteworthy trend is the movement towards basing incentives on domestic value added (e.g. in Nepal and the Philippines) which may gain some ground in the Caribbean developing countries also in the light of the trade policy contemplated by the United States for imports from that region. There are also indications that tariffs and quota restrictions, which had in some cases led to excessive and prolonged protection of local entities, including affiliates of transnational corporations, may be lowered, if not substantially altered, in several countries,

including India, Kenya, the Philippines and Thailand. Yet another trend in the incentive policy of some countries (e.g. Kenya) is towards making the availability of incentives in the manufacturing sector more automatic and less discretionary or negotiable and towards minimizing the administrative procedures for granting them.

197. In general, there is an underlying belief in many developing countries that incentives are important for demonstrating that the "investment climate" is a favourable one. Some may also fear that they may lose their competitive edge in securing international investment unless their incentives match those offered by other countries. Available evidence suggests, however, that incentives other than tariff or quota restrictions have little influence on the investment decision process of transnational corporations and that international investment may be more inhibited by uncertainties in the operating environment than attracted by incentives. Furthermore, supporting evidence is the fact that the flows of foreign direct investment to developed countries, motivated primarily by the size and growth potential of the host country's market or the availability of natural resources, have not been attracted by the liberal investment codes of many countries nor seriously impeded by the comparatively fewer incentives offered by others that have these advantages.

8. Acquisition of foreign technology

198. Despite their widely differing circumstances, there is a growing recognition on the part of many developing countries that national technological capabilities are vital to self-reliant development. Consequently, there is a noticeable trend towards making technology acquisition (in the widest sense of the term, including upgrading of technical skills) an important objective in policies towards foreign participation.

199. There is also a growing realization, although with varying degrees of emphasis and initiative, that an indigenous technological capability is a necessary condition for the evaluation of technology to be obtained from abroad, for the effective utilization of the transferred technology, for its adaptation to local conditions, for getting better terms for the transfer in negotiations with foreign enterprises and for the generation of "appropriate" indigenous technologies. In other words, indigenous technological capability is not an alternative to transfer but a necessary condition for it. While some developing countries have achieved significant successes in building up indigenous technological capabilities and have even been able to offer competition in external markets, many others continue to lag seriously in this respect - not necessarily on account of any lack of awareness of the need for developing technological capacities but rather on account of difficulties inherent in their situation.

200. The acquisition of foreign technology on suitable terms and the generation of indigenous technology have for long been a major objective of policy of several developing countries in Latin America, such as Argentina, Brazil, Mexico and the Andean group countries. In Asia, a central and stable feature of the policies of India since it became independent has been to regard foreign investment more as a vehicle for the transfer of technology than as a source of capital. This view is reflected in the fact that of the several hundred foreign industrial "collaborations" approved by the Foreign Investment Board of India each year, only about 15 per cent in number involve foreign equity participation, the rest being pure licensing and technical assistance agreements involving only lump sum and/or sales-related royalty payments. Even where foreign equity is permitted, unless the

technology transferred is sophisticated or tightly held abroad, it is not ordinarily allowed to exceed 40 per cent of the paid-up equity capital of the company, the limit beyond which a company becomes a "foreign" company in terms of the Foreign Exchange Regulation Act. Similarly, the Republic of Korea, which has made rapid strides in industrial and technological advancement in the last two decades, increasingly regards the transfer of advanced technical knowledge and skills as the raison d'être for joint ventures.

201. Taking a long range view of international competitive conditions and growth prospects, Singapore recently initiated a multi-pronged strategy for promoting and attracting high technology industries and services. The policies include, on the one hand, a government decreed enhancement of the minimum wage levels by a substantial proportion over three successive years, and, on the other, special tax and financial incentives for the establishment of local research and development facilities and the training of the workforce in high technology skills. Among the key objectives of the new joint venture and technology laws enacted by Yugoslavia in 1978 in place of the earlier laws of 1973 are the introduction of the latest technology and upgrading of the technical levels of Yugoslav enterprises, easier arrangements for the procurement of licences and patent rights and close technical and research links between Yugoslav and foreign enterprises. Likewise, the new joint venture law (1979) of China emphasizes that the technology and equipment to be contributed by the foreign partner must be "truly advanced by international standards" and must be "appropriate to China's needs". Some other developing countries, including Ghana, Indonesia, Kenya, Malaysia, Nigeria, Pakistan, the Philippines and Zambia are also beginning to accord priority, or to accord higher priority, to the acquisition of foreign technology and regulation of technology transfer arrangements, although in some cases (Ghana, Indonesia, Kenya, Zambia) this move is yet to be reflected in the establishment of comprehensive procedures for regulation and evaluation.

202. Broadly stated, the technology policy objectives of these and other developing countries are the following: identification of technological needs, selection of suitable technology and technology suppliers, strengthening the capacity of national enterprises in acquiring foreign technology, regulation of the terms and conditions of technology transfer arrangements, facilitating the absorption of imported technologies and promotion of indigenous technological capabilities. As is to be expected, the emphasis attached to the various objectives, the policy instruments adopted to achieve them and their efficacy vary among countries depending on the level of and the scope for domestic technological development. However, it is possible to discern an evolutionary process in the approach of many of the developing countries.

203. The earlier phases consisted essentially of regulating the remuneration for technology and trademarks as well as the duration of the agreements and restrictive business practices. Through laws, regulations, guidelines or administrative practices, the norms are broadly indicated, typically, with respect to matters such as rates of royalty payments for technical know-how, patents and trademarks under varying conditions (e.g. when they are combined or supplied separately, when the resultant sales are directed towards the domestic or export market, when the transactions take place between parent companies and their local subsidiaries, when the licensor has substantial equity participation in the proposed venture, and when separate lump-sum fees are also involved in addition to sales related royalty payments); the payment of guaranteed royalties; the treatment of imported components and parts for the calculation of the sales base for royalty payments;

the periodicity and mode of payment of royalties and fees. Such regulations or admininstrative guidelines can be found in the Andean group countries, Brazil, India, Malaysia, Mexico, the Republic of Korea, and the Philippines.

204. In implementing such regulations, developing countries have generally shown pragmatism and flexibility, recognizing that the world technology market is imperfect, that it is difficult to determine the reasonableness of the price for technology and that in the final analysis, the price is the outcome of the crude bargaining power of the technology supplier and the recipient. Even so, the purpose of regulation has been, first, to strengthen the bargaining position of the national recipient entities; secondly, to reduce the overall level of technology payments; and thirdly, to take an integrated view of foreign participation for evaluating the implications instead of looking only at foreign equity investment. To a certain extent, governments have also been motivated by the need to minimize unjustified transfers through transactions between parent companies and affiliated enterprises.

205. With respect to restrictive business practices, the regulatory process has tended to differentiate permissible and prohibited provisions in technology transfer arrangements. The laws and regulations of Brazil (1975), Zambia (1977), the Philippines (1978), Yugoslavia (1978), the Republic of Korea (1981) and Mexico (1982), illustrate the business practices that developing countries seek to avoid in licensing agreements as well as in joint venture contracts: tied purchases of raw materials and parts from the licensor or from suppliers designated by the licensor; restrictions regarding the volume, the sale or resale prices or the structure of production; restrictions on the handling of competitive products or the use of competitive technology concurrently; stipulations requiring improvements in technology made by the licensee to be made available free of charge to the licensor without reciprocal obligations; stipulations requiring the licensee or joint venture to export its products through the licensor or agents designated by him; stipulations permitting the licensor to regulate or control the management of the licensee company or, in the case of joint ventures, to appoint board members exceeding the proportion of the licensor's equity holding; and stipulations that exclude national laws and jurisdiction for purposes of dispute settlement. Other important, and often controversial, clauses of such arrangements are those whereby the licensor restricts the use of the technical data and information both during and after the termination of the contractual relationship. It is noteworthy that many of these practices are regarded as illegal or unacceptable by some home countries as well under their fair trade or antitrust laws and policies.

206. The subsequent phase broaches more fundamental issues, such as the identification of national technological needs, evaluation of alternative technologies and technology suppliers, unbundling of technological packages, development of indigenous technological capabilities and the building up of information systems. Given the complexities of these issues and the experience and expertise needed to deal with them, it is not surprising that wide differences in levels and capabilities exist among developing countries in this area. While Brazil, India, the Republic of Korea, Mexico, Singapore and Yugoslavia, for example, have achieved significant advances through long- term policies and sustained efforts by both their public and private sector enterprises, clear-cut policies for the development of national scientific and technological capabilities and the establishment of the requisite supporting measures and mechanisms have yet to be adopted in most developing countries. There is, however, a growing realization in many countries that national technological needs must be identified

on a more systematic basis, that the selection and evaluation of technology and technology suppliers as well as the arrangements envisaged for the absorption and adaptation of imported technology may be more crucial than the payments involved and that the capabilities of national enterprises must be developed through conscious policies and programmes. This realization is reflected in the emphasis placed in recent economic development plans of many developing countries on the need for comprehensive national science and technology development plans and the establishment of high level national agencies to formulate them and co-ordinate their implementation.

9. Legal and institutional framework

207. The legal framework of developing countries for regulating foreign investment and technology varies according to their objectives and basic legal system. However, the following broad categories could be distinguished. Some countries (e.g. Ghana, the Republic of Korea, the Philippines) require compulsory approval and registration of foreign investments as well as of technology transfer transactions and also offer tax and tariff incentives, concessions and guarantees through the same investment and technology transfer legislation and central screening agencies. In the Philippines, however, technology agreements are screened by a different agency under a specific technology transfer regulation. Some other countries also require similar compulsory approval and registration, either through the same legislation for both foreign direct investment and technology transfer transactions (e.g. Andean Pact countries) or through different legislation (e.g. Argentina, Brazil, Chile, Mexico), but investment incentives flow from different legislative provisions in the normal course so that central screening agencies are not concerned with the granting of incentives.

208. In still other countries (e.g. Indonesia, Papua New Guinea, the Middle East countries), only foreign capital investment, but not technology transfer arrangements, requires compulsory approval and registration, while incentives are made available either through the same legislation or through other legislation in the normal course. There are some other countries (e.g. Ivory Coast, Morocco, Thailand, Tunisia) where only those investments, whether domestic or foreign, which seek the incentives, guarantees and concessions prescribed under the investment legislation are subject to approval and authorization. Typically, technology transfer arrangements are not formally regulated in such countries. Yet other countries (e.g. Malaysia, Zambia) combine compulsory industrial licensing (both for domestic and foreign investments) and investment incentives in order to regulate investments. Zambia regulates technology transfer arrangements also by the same legislation.

209. On the other hand, a number of countries (Bangladesh, India, Kenya Pakistan, Sri Lanka, and the United Republic of Tanzania) have not enacted specific legislation requiring approval of foreign investment or technology transactions or both, but regulate them through administrative guidelines and agencies under the exchange control laws. Investment incentives in such countries are not within the purview of the central screening agencies, but flow from income tax and other legislation in the normal course. However, Bangladesh, Kenya, Pakistan, and Tanzania have specific foreign investment protection or foreign investment promotion and protection laws granting certain guarantees to approved foreign capital investments, while Sri Lanka enacted new legislation in 1978 to establish a special regime for fully export oriented enterprises established in specified free-trade zones.

210. Despite this diversity, it is clear that most developing countries require approval and authorization of foreign capital investment, the main difference being that in some cases investment incentives are granted by the same central screening agency and in others by virtue of other laws in the normal course. With respect to technology transfer arrangements, however, the approach is much less uniform. In many countries, such arrangements do not need formal approval or registration, although they might be examined in the course of the capital investment screening process or by the central banks in order to ensure that the payments involved are reasonable. However, there is a growing awareness that scrutiny is required not merely of the payments involved but also of the need for and suitability of the technology and of the arrangements envisaged for its transfer and absorption.

211. The institutional machinery for regulating investments also varies according to the approach and administrative structure of host countries. The central screening agencies are statutory bodies or inter-ministerial administrative committees, depending on the legislative framework adopted for regulation, and their composition and functions differ according to the responsibilities assigned to them. In many countries, such as the Andean group countries, China, Ghana, India, the Republic of Korea, Mexico, Pakistan, Yugoslavia, and Zambia, the same central agency is responsible for screening both foreign direct investment and technology transfer arrangements, in recognition of the close links between the two and the desirability of taking an integrated view of foreign participation. In Argentina, Brazil, Chile, Malaysia, Nigeria and the Philippines, on the other hand, the screening of investment and technology transactions is undertaken by different agencies, with varying degrees of co-ordination between them. In most other countries including Indonesia, Ivory Coast, Kenya, Papua New Guinea, Sri Lanka, and the Middle East countries, the central agencies are responsible for screening only foreign investment, and technology transfer arrangements are either not scrutinized or the scrutiny takes place in the course of the procedure for the approval of investments or of foreign exchange expenditure.

212. The functions of the screening agencies differ also in the matter of the grant of investment incentives, the difference lying not so much in the provision of incentives as in how they are made available. In Indonesia, Ivory Coast, the Republic of Korea, Malaysia, Morocco, Papua New Guinea, the Philippines, Thailand, Tunisia and Zambia, for example, and, generally in countries which use investment incentive laws or codes to regulate domestic and foreign investments, the central screening agencies are empowered to grant both approvals of and incentives for investments. This approach would appear to be based on the consideration that the regulation and promotion of investments should go hand in hand and that, apart from introducing certainty and simplified procedures in granting incentives, this approach enables screening agencies to use incentives as a trade-off in establishing performance requirements. On the other hand, in many other countries, such as the Andean group countries, Bangladesh, Brazil, India, Kenya, Mexico, Nigeria, Pakistan, Sri Lanka and the Middle East countries, the central agencies are concerned only with the approval and authorization of foreign investment (and in some countries, as noted earlier, of foreign technology transfer arrangements also), while investment incentives flow from other laws and regulations in the normal course either automatically or according to approval procedures applicable to them.

213. In several developing countries, including, for example, Egypt, Ghana, Indonesia, Ghana, Malaysia, Papua New Guinea, the Philippines, and Thailand, the functions of the central agencies have over time been widened to include the

preparation and publication of plans indicating priority areas for investment and terms for foreign participation, advising the government on the formulation or review of investment policies, dissemination of information on investment opportunities and providing assistance and guidance to prospective investors. In other words, the central agencies have been made responsible for planning, promoting and regulating foreign investments in an integrated manner. In other countries, these functions are undertaken by the ministries concerned, typically the ministries of industry, commerce, planning, economic affairs and finance, which draw on the accumulated expertise and experience of the central screening agencies.

214. Regardless of the variations in the legal and institutional framework, a common objective of many developing countries is that the implementation of policies should be kept flexible and pragmatic and that administrative procedures should be streamlined to minimize delays and 'red tape'. The elimination of unnecessary controls and the granting of automatic authorization have also received attention in this context. In several countries, the growing capabilities of their own public and private sector enterprises in selecting foreign partners and negotiating with them have lessened the need for governmental intervention in operational details. In other countries, certain shifts in policies, especially a greater emphasis on private sector initiatives and market mechanisms, have prompted this development. Generally speaking, there is an increasing awareness that clarity in policies and efficiency in approval procedures are important goals for a regulatory framework.

215. The monitoring of the performance and impact of enterprises with foreign participation continues, however, to be weak or non-existent in most developing countries. Such monitoring can occur in three areas: monitoring during the stage of implementation of the approved projects, monitoring enterprise-specific performance requirements, if stipulated, during the operational stage, and general monitoring of the operations and impact of the enterprises. The information requirements and modalities of monitoring would obviously vary from one area to another. In the case of the first two, monitoring is time bound and needs to focus on specific items such as, for example, the obstacles to implementation of the projects and possible ways of overcoming them, progress in the fulfilment of the performance requirements stipulated in the investment approvals and the reasons for partial fulfilment or non-fulfilment. Given adequate effort, it would appear that monitoring of these aspects can be undertaken with greater efficiency and effectiveness by the centralized screening agencies or by the ministries concerned or by both in a co-ordinated manner.

216. Monitoring in the third area is, however, more complex and difficult as it has to be of a continuing nature and as it depends, inter alia, on the scope and purpose of the monitoring envisaged, disclosure requirements, and available expertise in the type of analysis required. At the same time, to be consistent with other objectives and policies, the requirements would need to be uniform for similarly placed enterprises and to avoid unnecessary burdens being placed on enterprises or the establishment of a large bureaucracy to do the work involved. For the time being, the principal shortcoming in most countries is the inadequacy of disclosure for any proper evaluation of performance.

10. Policies of host countries towards transnational corporations in respect of natural resources

217. The recent evolution of the policies of host countries towards the involvement of transnational corporations in the development, production and marketing of

natural resources has been affected by a number of factors. First, to the extent that these policies exist, they have generally been formulated for the purpose of achieving the broad governmental objectives mentioned below, which since the late 1960s have signalled a sustained attempt on the part of host countries to change the basic pattern of their relations with transnational corporations in their favour. Second, the specific policies and strategies adopted by host governments as regards natural resources have been appreciably affected by their bargaining positions as determined by the extent of their proven natural resources, the level of their economic development, and the particular constraints under which they labour, such as shortage of foreign exchange, limited national capabilities in the particular resource industry, and the demand of the local market for the commodity in question. Third, such government policies often differ according to the type of natural resource in question. Petroleum policies, for instance, may have little in common with the strategies and policies with respect to the development of hard minerals. The sharp decline in foreign investment in mining has led to a considerable liberalization of the fiscal regimes for hard minerals projects in some countries. Fourth, in some cases, particularly in the case of hard minerals, some countries have yet to formulate general policies governing the development of particular mineral sectors or sub-sectors. In such countries, policies have been fashioned on ad hoc basis. Lastly, in many host countries, government policies are reflected not only in legislation or other public pronouncements, but in particular development agreements concluded with transnational corporations. Sometimes the general legislation is substantially modified by the specific agreements entered into as well as by the manner in which such agreements are actually enforced or administered.

(a) The petroleum sector

(i) Government objectives

218. In very broad terms, there are a number of objectives that most developing country governments seek to attain through their petroleum sector policies. Among these objectives are the following:

(a) The rapid exploration of the national territory, so as to obtain a full assessment of the country's petroleum potential;

(b) The development and production of petroleum resources in a way that maximizes ultimate total recovery and ensures maximum long-term benefits to the country;

(c) Meeting domestic petroleum needs from domestic production and reducing costs and uncertainties caused by reliance on imports;

(d) Securing maximum government revenue and foreign exchange benefits from petroleum production;

(e) The development of a national capability, with the aim of exercising effective control over the petroleum industry;

(f) Obtaining the transfer of petroleum technology and the development of domestic technical expertise;

(g) The protection of the environment and in particular of activities such as fishing, shipping or tourism which might be adversely affected by petroleum operations;

(h) In general, exercising the maximum possible national control over the petroleum industry so as to achieve other national objectives and to ensure that petroleum sector activities are consistent with national plans and policies.

219. Within the context of these over-all goals, governments may have different priorities. For example, in the case of an oil-importing country suffering from a shortage of foreign exchange, high priority may be placed on rapid exploration with the aim of finding domestic oil supplies and reducing imports. In contrast, a country with established oil production may place greater emphasis on increasing government revenue or on acquiring a domestic technical capability.

(ii) Constraints on governments

220. Not all countries are in an equally strong position with respect to their ability to achieve the various objectives discussed above. A number of factors operate as constraints on governments in securing advantageous petroleum arrangements.

221. First, there is the constraint of the government's capability to oversee, control and operate the petroleum industry. Few governments, even in the industrial countries, such as Canada, Norway and the United Kingdom, are fully confident of their ability to control all aspects of the industry, and, in particular, of their ability to audit the costs and prices reported by oil companies. One method of speeding up the process of exerting effective government control over the operations of foreign oil companies is to include in any government-company agreement a strong provision calling for the assignment of nationals to on-the-job training and for practical measures (e.g., joint company-government committees on procurement, technical aspects of operations etc.) so that nationals may acquire experience of the day-to-day operations of the oil industry.

222. A second constraint concerns the country's geological prospects. A country with proven oil resources will, obviously, be able to extract better terms from foreign oil companies than a country where the exploration risk is perceived by the companies as being high.

223. Another constraint is the country's own demand for crude-oil supplies. A country with significant domestic demand may want firm assurances that any oil which is discovered will be used first to replace imports. But in some cases, countries have found it more profitable to export their own oil and to import other oil. The reasons may lie in the lack of need at home for high-grade crude or the high costs of transporting oil from the domestic source to the principal local consumers. Even when domestic oil is to be reserved for local use, certain foreign firms may be interested in participating in its production. The interest will depend on the company. While some companies are keen to obtain new sources of crude for refining elsewhere, others are interested in profit opportunities regardless of where they arise.

(iii) Policies of host governments in the petroleum sector

224. The foregoing constraints dictate different policies in different petroleum-producing countries. Nevertheless, a study of recent petroleum laws and agreements points generally to the following policy trends:

(1) Many governments have devised legislative and contractual regimes for accelerating the exploration and production of their petroleum resources with minimum cost to the host countries concerned. In addition to providing risk capital, transnational corporations are now required to adhere to carefully devised work programmes which stipulate minimum work obligations and expenditure at specified stages of the petroleum projects. Acceleration of exploration, development and production is further reinforced by limitations on the period and area of exploration, and by rigorous relinquishment obligations.

(2) Although the spate of nationalizations in the 1970s has abated, new mechanisms have been introduced to ensure more effective participation in and control of the petroleum operations. Reporting requirements have been tightened up. Specific procedures have been laid down for determining the commerciality of discoveries, and for regulating production methods and the rate of extraction or depletion. Joint technical committees and joint management committees, on which representatives of host governments or the national oil agency and the foreign oil company serve, have been established to ensure the participation of local officials in the management of the petroleum operations.

(3) Host governments are placing increased emphasis on the training of their nationals. Transnational corporations are now required to prepare and execute specific training programmes for the nationals of host countries with a view to replacing all foreign personnel in time. The concern with the development of national capabilities is reflected in the increasing tendency to require foreign companies to assign local personnel to every phase of petroleum operations.

(4) Methods for maximizing revenues accruing to host countries have assumed new dimensions. New devices such as sliding scale royalties, sliding scale rentals, progressive production sharing, and excess profits taxes have been introduced in addition to a general increase of fiscal charges to capture the bulk of the economic rent for host countries. The pricing of petroleum is determined in accordance with formulae devised by host governments, while elaborate accounting procedures have been introduced to enhance the government "take".

(5) Economic linkages have been imposed to ensure a broader developmental impact of petroleum operations, for example, procurement of domestic goods and services, investment in downstream installations and facilities, supply of crude oil to the domestic market often at a concessional price. Some countries, e.g., Saudi Arabia, have succeeded in making investment in refineries a condition even for purchases of crude oil.

(6) Host government policies on the distribution of benefits and the exercise of control have sometimes been relaxed to induce investment by transnational corporations, in the face of severe economic constraints.

(b) Hard minerals

225. The policies of host governments with respect to the development and production of hard minerals have been seriously affected during the past five years by the drastic decline in foreign investment in mining in developing countries. While host governments have, on the whole, attempted to attain most of the objectives pertaining to the petroleum sector as indicated above, the competition for scarce investment funds has resulted, in some cases, in the promulgation of flexible or liberal policies specifically designed to attract mining investment. The main thrust of government policies, on the whole, has been to maximize the benefits accruing to the host country, while leaving sufficient benefits to induce foreign mining companies to invest. The particular policies and strategies adopted have sometimes differed markedly from those applicable to the petroleum sector, and have reflected even more significantly the above-mentioned constraints under which host countries labour. The main features of these policies may be summarized as follows:

(i) Ownership and control

Many governments have sought to participate more effectively in the mining industry by acquiring, or securing the option to acquire, a minority or majority equity interest in mining undertakings. The illusory nature of control often resulting from such acquisitions has not generally deterred some host governments from such policies. The acquisition of equity is often seen as a sine qua non of effective participation in the mining industry. "Free equity", the option to acquire equity, the conversion of royalty into equity, capitalization of infrastructure in the form of equity, and even outright purchase of equity have been employed as devices to secure increased ownership, control and participation (Indonesia, Panama, Papua New Guinea). On the other hand, the governments of some countries, e.g. Argentina and Chile, have conceded regimes which are comparatively free of government control.

(ii) Fiscal provisions

The maximization of revenues remains an important objective. Some governments have introduced devices, such as excess profits or additional profits taxes, to capture the economic rent in the event of the mining venture proving more profitable than was originally envisaged (Guyana, Indonesia, the United Republic of Tanzania). However, the general level of fiscal impositions has not appreciably increased. On the contrary, in some cases, host countries have gone out of their way to offer fiscal incentives, such as accelerated depreciation, capital allowances, tax holidays and a high debt-equity ratio, as inducements to mining investors. Some countries, such as Indonesia, have introduced devices that materially reduce the possibilities of evading tax obligations. Accounting procedures defining deductible expenses, depreciation, etc. have been established to clarify the basis for computing taxable income, and more stringent provisions have been introduced regarding the definition of affiliates and the treatment of interest for tax purposes.

(iii) Increased processing in host countries

There is a growing tendency in many host countries, particularly in Africa, to insist on local processing of mineral ore as a means of obtaining a greater share of the mineral's value-added. For this purpose, obligations have been imposed on transnational corporations requiring them to process the minerals locally, at any rate to some degree (Botswana, Sierra Leone).

(iv) Training and other developmental provisions

The governments of non-fuel mineral producing host countries have, like those of petroleum producing countries, increasingly adopted policies to ensure more effective training of their nationals and economic and social linkages with their mining projects on the lines indicated in the passages above dealing with the petroleum sector.

B. Host developed countries

226. The policies of developed market economy countries with respect to inward direct investment generally reflect their basic philosophy that international investment promotes a more efficient allocation of available economic resources and can contribute significantly to the development of their economies, when it is allowed to flow freely in response to market forces. The policies also reflect their view that, on the whole, foreign investment brings in competition and complementarity and stimulates industrial efficiency and technological advancement. In the case of some countries, for example the Federal Republic of Germany, the Netherlands, the United Kingdom and the United States, investment policy is also influenced by their dual position as significant "exporters" as well as "importers" of foreign direct investment. Neutrality with respect to inward or outward investment flows and a relatively open attitude toward incoming foreign investment generally characterize their policies.

1. Sectoral and ownership policies

227. In relations among OECD countries, investments continue to be governed by the Code of Liberalization of Capital Movements, 1961, the Code of Liberalization of Current Invisible Transactions, 1961, the Investment Declaration and Related Decisions of 1976. While a "high degree of liberalization" has been achieved by OECD countries under the Code of Liberalization of Capital Movements, a number of restrictions still remain with respect to direct investment capital transactions and transfers. Moreover, there are a number of other measures which, while falling outside the ambit of the liberalization obligation of the Code, do represent limitations on the ability of foreign investors to undertake certain investments. 1/

228. Sectoral controls and restrictions on inward foreign investment continue to exist, in one form or another, in all the OECD countries, especially in the service sector, such as banking, insurance, communications, air transport, international transport by land and shipping, and in the natural resources and energy sectors, such as agriculture, forestry, fisheries, mining, oil and nuclear energy. In many countries, access to certain sectors is forbidden to foreign investors or foreign

controlled companies or is subject to restrictions. In other cases, the limitations are less stringent and relate, for example, to the extent of foreign capital ownership (e.g. Finland, where foreign participation is limited to 20 per cent in a wide variety of service and natural resources industries) or to the nationality and residence of the members of the board of directors (e.g. in Australia for non-bank intermediaries and insurance companies, in Ireland for banks, in France for investment corporations, in Norway for travel agencies and tour operators, in Sweden for limited liability companies and co-operative societies, and Switzerland for rail transport undertakings).

229. Apart from imposing restrictions as regards ownership or nationality, some countries do not permit access to certain activities or professions to foreign citizens or foreign controlled enterprises except on the basis of international agreements or reciprocity between the countries concerned. This is the case, for example, in France for publishing activities, road transport services, car rental activities and certain professions; in Norway, Sweden and Switzerland for international air transport; in Canada for foreign banks; and in the United States for rights-of-way for oil pipelines or mining leases on federal lands.

230. In addition, in many countries, there are sector-specific requirements regarding establishment or regulatory approval which apply specifically to foreign investors or which prescribe criteria specific to foreign investors. This is the case, for example, for banks, insurance companies, credit institutions or non-bank financial intermediaries in Australia, the Federal Republic of Germany, Italy, Switzerland and the United Kingdom, for radio or television broadcasting in Canada, Japan and the United States, for retail trade, handicrafts and agriculture in France, and for certain specified activities in Australia, New Zealand and Sweden.

231. Finally, in most countries, certain sectors or activities are covered by public, private or mixed monopolies. These include postal services, telegraph, telephone and telecommunications, broadcasting, air, rail and inland water transport, energy production and distribution (mostly electricity, but including also coal, petroleum and nuclear energy), and alcohol and tobacco production and distribution. They extend also to a wide range of activities in individual countries, for example the distribution of selected primary commodities such as wheat, wool and eggs in Australia; import, export or distribution of selected items such as grains, medicines and raw fish in Norway; import and distribution of salt and bakery products in Switzerland; import, manufacture or sale of salt in Japan; employment services in Finland and Sweden; retail trade in pharmaceutical products in Sweden; chemical and steel production in Portugal; and commercial and political risk insurance in Spain.

232. There is thus a certain resemblance between the policies of developed and those of developing countries with respect to the reservation of certain sectors or activities for exclusive or predominant national ownership. The chief distinction seems to be that, by and large, the manufacturing sector is free of limitations in the developed countries and that in the service, natural resources and energy sectors the limitations are much less pervasive.

233. It should not, however, be inferred that foreign ownership has not raised concern in at least some developed countries, especially those with a high degree of foreign investment in their economies. Canada's National Energy Programme (NEP) of October 1980, characterized in some quarters as a "takeover and practical nationalization of a big chunk of the Canadian oil producing industry", aims at

"Canadianization" by increasing to 50 per cent from about 30 per cent the Canadian Government's and Canadian private ownership and control of the oil and gas sector. 2/ Although similar definitive domestic ownership schemes have not been established for other sectors, the programme envisaged for Canadian equity participation is one of the important elements taken into account by Canada's Foreign Investment Review Agency (FIRA) in screening foreign investment proposals.

234. Likewise, there is growing emphasis in Australia on significant Australian ownership and participation in the management of undertakings operating in the country, especially of resource development ventures. Furthermore, when established foreign controlled enterprises propose to seek funds from the local market, they are encouraged to raise the funds through increasing local equity by means of new share issues or other placements. In France, not only did the recent nationalization programme initially cover three foreign controlled firms active in the computer, telecommunications and pharmaceuticals industries, 3/ but also foreign take-overs of companies with technological strengths or growth and export prospects are subject to careful scrutiny to safeguard national interests. In Spain, although authorization is granted in almost all cases, as a general rule prior authorization is required for any foreign investment in a Spanish firm that exceeds 50 per cent of the firm's capital.

235. Even in the United States, which advocates a generally open international economic system and where foreign-controlled companies (i.e. those with more than 10 per cent foreign equity) are estimated to account for not more than about 5 per cent of all domestic sales (as compared to 56.2 per cent for Canada, 36.2 per cent for Australia, 23.6 per cent for France and between 22 and 16 per cent for Austria, the United Kingdom, Norway, Federal Republic of Germany and Spain), 4/ the growing foreign investment in the United States outside the manufacturing sector is raising some concern. A two-year study of foreign investment in the country by the Commerce, Consumer and Monetary Affairs Subcommittee of the House of Representatives calls for a basic reassessment of American policy toward foreign investment, which it terms "indiscriminate neutrality", and for establishing one central authority for registering and monitoring incoming foreign investment, so that harmful investments could be barred and the "dangerous vulnerability" of the country arising from foreign investment could be minimized. In addition, the study recommends that United States companies should be given a chance to offer counter-bids and that federal finance or other assistance should be denied for take-overs of American companies. 5/

236. Although the extent of government involvement and support varies from country to country, the policies of several countries highlight the sectors or activities that occupy a position of priority for domestic and foreign investment. The part played by the Ministry of International Trade and Industry (MITI) of Japan and the close co-operation between government and industry in charting the long term direction of industrial growth are not only well documented, but are also regarded as the source of the competitive strength of Japanese enterprises in the international market place. Technological and cross-licensing arrangements with foreign enterprises, together with the strengthening of domestic R and D capabilities, form a central part of such strategic planning. Thus, even as capacities in identified "declining" industries like ship-building, electric furnace steel, ferro-silicon, aluminium, fertilizers, petrochemicals, cotton and wool spinning and synthetic fibres are being systematically reduced and their decline is cushioned by financial assistance and anti-trust exemptions under the Depressed Industries Law, 1978, 6/ long range planning and support are concentrated

on areas such as micro-electronics, microbiology and genetic engineering, development of "new materials", optical fibre, lasers, computers including software development, aerospace and the like that are regarded as having higher growth and competitive potential in the 1990s. In fact, the record of Japanese firms in adapting to changing competitive conditions is attributable at least in part to a coherent and forwarding-looking industrial policy at the national level.

237. Other developed countries, where foreign direct investment plays a significant role and is often actively solicited, have also outlined industrial policy objectives and areas for priority development. For example, industrial policy in France envisages a strong boost to domestic research and development by raising R and D spending to at least 2.5 per cent of the GNP by 1985 and by increased emphasis on steering industrial development into high-technology sectors. The policy favours the development of sectors such as micro-electronics, bio-technology and aerospace and in general, areas of sophisticated technology. As a result, transnational corporations with advanced technological know-how may receive preferential treatment as compared to those operating in traditional or consumer goods sectors.

238. Similarly, Austria follows a conscious policy of attracting foreign investment, especially by United States and Japanese companies seeking production bases in Europe benefiting from Austria's free trade agreement with the EEC and its membership of EFTA, that will strengthen the country's industrial development in high technology areas. A number of industrial sectors where Austria may have a comparative advantage, such as semi-conductors and other electronic components, instrumentation and control equipment, robots, machine tools and other highly specialized industrial machinery and equipment, energy conservation and recycling equipment, telecommunication and office equipment, software development, consumer electronics and the like, have been specifically identified for promotion and a gamut of liberal fiscal and financial incentives have been offered to attract foreign investment in these areas.

239. By and large, countries whose governments play an active part in seeking, guiding or regulating foreign investment have shown a preference for foreign investment that contributes to national technological advancement, especially in high technology areas, and to increased exports, employment and balance of payments support. In varying degrees, this is what happens in e.g. Greece, Ireland, New Zealand, Portugal and Spain. In like manner, the screening process in Australia and Canada also focuses on the net economic benefits that may accrue to the national economy from inward foreign investment. It may be observed that the approach of some of these countries bears a resemblance to the policies followed in many developing countries.

240. On the other hand, there is hardly any governmental intervention or indication of prefered areas for investment or in guiding investment into specific areas in countries such as the Federal Republic of Germany, the Netherlands, Sweden, the United Kingdom and the United States. With the exception of areas where foreign investment is subject to general or particular restrictions, as indicated earlier, market forces are allowed greater latitude to determine the nature and extent of investments. It should, however, be added that this distinction is more one of degree than one of kind, since developed countries in the other category also rely essentially on market forces to generate domestic and foreign investments notwithstanding the promotional or guiding function that may be performed by the governments.

2. Access to domestic financial resources

241. As in the case of developing countries, in developed countries also access to domestic financial resources by foreign controlled companies continues to be a material factor affecting inward foreign investment, and as in developing countries, the policies of host developed countries vary considerably.

242. Broadly speaking, countries such as Canada, the Federal Republic of Germany, Japan, Luxembourg, the Netherlands, Switzerland, the United Kingdom and the United States, which include the largest "exporters" as well as the largest "importers" of foreign direct investment, do not distinguish between resident and non-resident investors in the matter of raising funds on the local capital market.

243. On the other hand, Australia, Austria, Belgium, Denmark, Finland, France, Italy, New Zealand, Norway, Portugal, Spain and Sweden impose varying degrees of restriction on non-resident investors raising funds on the local market for the purpose of financing direct investment. For example, in Australia, non-resident investors proposing to make new investments in Australia are not permitted to raise funds locally. However, once an enterprise is established, it may raise funds locally although, as noted earlier, such enterprises are encouraged to raise needed funds more through local equity participation than through local borrowing. Access to local financing in Portugal and Spain is permitted according to a graduated scale varying with the level of foreign equity participation in a manner similar to that followed in developing countries such as Brazil and Kenya. In Sweden the rule is that, where an investment exceeds Kr. 5 million, one-half of the investment in fixed assets should normally be financed by the parent company from abroad. Capital import is generally required in France if the investment is for the purpose of participation in or taking over an existing established enterprise. New Zealand and Norway require prior authorization for access to domestic financial resources.

3. Performance requirements

244. Although explicit performance requirements to be fulfilled by local affiliates of foreign enterprises are not as prevalent in developed countries as they are in developing countries, 7/ a number of developed countries - Australia, Canada, Greece, Italy, Ireland, New Zealand, Portugal, Spain - impose such requirements. France and the United Kingdom have on occasions imposed performance obligations on the part of foreign enterprises. According to a 1977 survey carried out by the United States Department of Commerce, Portugal stipulated such requirements in the case of a number of United States-owned affiliates, and Ireland, New Zealand and Greece in the case of about 20 per cent of such affiliates. 8/

245. The commonest performance requirements relate to local labour content, local material content, exports and limitations on imports. As far as ownership limitations are concerned, there is some difference of opinion as to whether they fall under "performance requirements" or "national treatment". By industry classification, mining and manufacturing enterprises (especially those active in the transport equipment, electrical and non-electrical machinery, food products, chemicals and metal fabrication and petroleum sectors) are most often subject to some performance requirement.

246. Performance requirements imposed on United States-owned affiliates abroad have been the subject of intense debate in the United States for some time. It has been suggested that the performance requirements and investment incentives being

increasingly employed by host countries distort international trade and investment flows and are damaging to the economic interests of the United States; that both performance requirements and investment incentives should be brought under the discipline of a GATT type of international investment arrangement; and that the United States should replace its current attitude of "passive and indiscriminate neutrality" toward inward investment by a policy of "reciprocity" vis-à-vis other countries. 9/

247. On the other hand, a different point of view has also been expressed, for example, in respect of the automotive sector, which is widely subject to some form of trade related performance requirements (in about 40 countries, according to Labour-Industry Coalition for International Trade (LICIT) of the United States). The Motor Vehicle Manufacturers Association of the United States has stated that "international trade in automotive products and the choice of location for production are the result of many complex factors, some of which are influenced by, but certainly by no means dictated by the existence of investment incentives and performance requirements". While supportive of the general view that performance requirements may cause distortions in international trade and investment flows, the Association added that "where an underlying economic potential exists, however, global welfare and efficiency may well be enhanced in the long run as a result of temporary policies that create short-term distortions in trade and investment flows. Because of this uncertainty over the significance of trade-related performance requirements, much remains to be learned before the actual international or United States impact can be assessed." 10/

248. The Auto Content Bill, known as the Fair Practices in Automotive Products Bill, passed by the United States House of Representatives in December 1982 not only typifies the growing protectionism in the industrial countries, but also reflects a substantial departure from the policy of opposition, on principle, to performance requirements. The Bill, which is in some ways more far-reaching than the kind of performance requirements employed in most host developed or developing countries, requires that all manufacturers selling more than 100,000 cars in the United States must satisfy progressively more onerous conditions as regards the domestic input of parts and labour. For every 100,000 cars sold in the United States, the manufacturer concerned would have to prove 10 per cent domestic content, rising to a maximum of 90 per cent, this objective to be achieved by 1986. For example, a manufacturer selling, say, 700,000 cars in the United States would have to prove a domestic content of 70 per cent. While the Bill was strongly supported by the United Automobile Workers Union, it was opposed by the automobile industry and a number of other business groups, as well as by those who contended that such a protectionist measure "would almost certainly lead to retaliation by United States trading partners that could lead to a trade war and possible world depression". 11/ Doubts have been expressed as to whether any legislation of this type, if enacted, would be limited to a single industry. The United Kingdom also demanded in 1982 a quick build-up to 80 per cent local content in its negotiations with a Japanese company for building a £300 million automobile plant in the United Kingdom. 12/

4. Investment incentives

249. Developed market economy countries offer a wide variety of incentives to potential investors, including direct financial assistance such as grants and loans, loan guarantees, subsidies and equity investments, tax incentives such as accelerated depreciation, write-offs exceeding 100 per cent of the value of the

investment, investment tax credits, reduced tax rates and tax holidays, and non-financial non-tax incentives such as access to government procurement, tariff and quota protection, provision of trained workers, guarantees against expropriation of property and impartial dispute settlement procedures. In many cases, incentives are linked to the achievement of specific objectives, for example the expansion of exports, location of investment in depressed or special development areas, employment generation, training of workers or establishment of local research and development facilities. The incentives are often liberalised through negotiations with firms designed to influence their decisions as to location and in return for their accepting increased performance obligations. Because of the recent economic slump, sectoral incentives are also being increasingly employed to support particular industries. As evidence of the magnitude of investment incentives granted by developed countries one may cite the statement that "even today, some OECD countries are reported to offer incentives equal to 25 to 50 of the total value of new plants". 13/

250. Thus in the matter of investment incentives, there is a great deal of similarity between developing and developed countries, the major differences being probably that developed countries tend to rely more on direct financial assistance and that developing countries rely more on tax and tariff incentives, and that in developed countries the beneficiaries of such incentives are more commonly domestic investors.

251. Although investment incentives are not as strongly linked with performance requirements in developed countries as they are in developing countries, 14/ the incidence of investment incentives and disincentives on the international investment process has been the subject of study, consultations and review in the context of the OECD Investment Declaration and Decisions of 1976. As observed earlier, there is a school of thought, especially in the United States, which holds that investment incentives and performance requirements are but two sides of the same coin, that there is an intensifying and mutually destructive trend towards "incentive wars" among host countries and that incentives distort international investment and trade flows. It is felt, therefore, that they ought to be restrained and brought within the purview of clear-cut rules analogous to those of GATT for international trade.

252. As the Business Industry Advisory Committee (BIAC) of the OECD has pointed out in its response to the OECD Working Group on International Investment Policies, 15/ the study of the role and impact of investment incentives is complicated by several factors. First, investment incentives are not solely aimed at attracting foreign capital, but are usually designed to stimulate investment, either generally or in specific sectors or activities, regardless of whether the investment is domestic or foreign or a mixture of both. It is difficult, therefore, to isolate or determine the value of incentives applicable to foreign inward investment alone. Secondly, it is impossible to determine the effects of the incentives, as it would be necessary for this purpose to answer the hypothetical question as to what would have been the amount or direction of investment in the absence of such incentives. Thirdly, investment incentives should be seen in the total context of the fiscal framework and other aspects of the host country's policies (especially the underlying level of effective corporate tax rates). Since these are in a way unique to the situation in each country, reliable comparisons of the incentives offered in different countries becomes exceedingly difficult. 16/ Many of these considerations are equally valid in the case of developing countries as well.

253. Within these limitations, however, the BIAC study shows that investment incentives have a "minimal influence" on the decision of an enterprise to undertake foreign direct investment and that this decision is guided more by the international investment strategy of the enterprise concerned and a number of key economic factors rather than by incentives. At the same time, it is true that when an enterprise decides to undertake a foreign investment on the basis of such considerations, the timing of the investment or its location may to some extent be influenced by available incentives. Here again, international investment tends to be more deterred by disincentives (especially "political instability and regulatory unpredictability") than aided by incentives.

254. On the related issue of performance requirements, the view expressed in the study referred to is that, while they may assist governments in meeting vital national goals, they may also have potential negative effects on home and host countries, the investor and the market place. The study suggests therefore that they should be used "cautiously with full regard for their costs and benefits."

255. Given the complexity of the issues involved, the debate on investment incentives and performance requirements will doubtless continue. Their widespread and increasing usage, however, reflects the experience, if not the concern, of even host developed countries that governmental intervention or inducement is often necessary to promote the achievement of specific national objectives and that unfettered reliance on market forces alone may not be sufficient for this purpose. The problem is aggravated in the case of developing countries where a two-way flow of investment and trade hardly exists, where foreign direct investment tends usually to be import-intensive and often geared to transfer pricing, and where forward or backward linkages with the rest of the economy are usually very weak. 17/

5. The rising tide of protectionism

256. To a certain extent, protectionism was latent in the policies of several industrialized countries even by the mid 1970s. For example, Japanese investment in the United States was negligible in 1970, but many Japanese companies with a significant stake in the United States market had to establish production facilities in the United States when they were confronted with actual or potential import restrictions. As a consequence of the Orderly Marketing Agreement of 1977 that restricted imports of Japanese colour television receivers, four Japanese companies (joining three others that had already done so) established production facilities in the United States to supply the local market for these products, at the same time closing or curtailing production in some "export platform" developing countries. Similarly, to avoid barriers that the United States was considering imposing on ball bearings, five leading bearing manufacturers of Japan acquired or built plants in the United States. An anti-dumping investigation of imports of micro-wave ovens led four other Japanese companies to establish local production facilities, while four leading semi-conductor manufacturers invested in production facilities in the United States in the late 1970s prompted, at least in part, by complaints of domestic producers about their market inroads in the United States. While several factors have contributed to rising foreign direct investment in the United States from Japan, the Netherlands and the Federal Republic of Germany in the latter half of the 1970s, the stepped-up pace of this investment has been influenced, at least in part, by potential import restrictions. The potential threat of such restrictions accounts also to some extent for Japanese investment in EEC countries.

257. Such pressure usually increases when the domestic market share of foreign companies rises significantly or when the trade balance shows sharp deterioration. However, the deep and continuing recession in the industrialized countries since 1979, which has pushed unemployment figures to post-war record levels and made unemployment an explosive political issue, has encouraged protectionism and diluted the commitment to free-trade principles and an open economic system even in countries such as the United States. The growing pressures on Japanese industry to restrict exports of e.g. automobiles, machine tools and video-tape recorders and to "invest where the market is", including the "signals" conveyed by the United States Auto-Content Bill referred to earlier, are symptomatic of the rising tide of protectionism. Doubts have been expressed as to whether it is possible (or even desirable) to revert to a genuine open trading system.

258. Economic recovery through a co-operative approach is likely to be a decisive element in any enduring effort to counter the rising threat of protectionism, although there is no consensus as yet as to the means to be adopted to spark recovery in various countries. Since trade and investment are so inextricably interlinked in developed countries, the pressure on foreign investors not only to establish domestic production facilities but also to observe local content requirements will become increasingly intense for so long as unemployment remains a sensitive issue. Distortions that may be caused as a result may be no less significant than the "performance requirements" against which criticism was being levelled until recently.

6. Regulatory framework

259. Although the screening process differs in nature from that followed by developing countries, economic nationalism and a desire to find "national solutions" do pervade the policies of several developed countries as well. The lack of transparency in performance requirements noted in the OECD report 18/ may, at least in part, be attributable to a conscious decision to retain flexibility in the system so that the investment authorization process can be adjusted to serve perceived national requirements.

260. With the exception of six countries - the Federal Republic of Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States - the other OECD countries require formal authorization of inward direct investment. The scope and restrictiveness of the authorization procedures, however, vary from country to country. For example, Austria, Finland, Greece, Ireland, New Zealand, Norway, Portugal, and Sweden require prior authorization of all incoming investment by non-residents. In addition, all direct investments by established foreign-controlled resident enterprises also require prior authorization in Finland, New Zealand, Norway and Portugal. The Foreign Investment Code, 1977, of Portugal specifies two forms of authorization, namely, general and contractual, the latter being reserved for projects of special interest to the national economy, for which special benefits may be granted by the Government. The Code also provides for automatic authorization in the case, inter alia, of investments in defined "priority sectors". In Spain, authorization is required as a general rule for foreign investments in Spanish firms in excess of 50 per cent of the capital of those firms.

261. The most comprehensive authorization procedures are to be found in Australia and Canada. In Australia, the Foreign Investment Review Board (FIRB) judges each proposal on its merits from the point of view of national economic and other

benefits and costs. A variety of criteria are employed in making the assessment, but in the main, they include the net economic benefits accruing to the Australian economy in terms of competiton and efficiency, new technology, exports, employment generation, local processing of raw materials and local sourcing of parts and services, the level of Autralian participation in equity and management, and overall conformity to the government's economic and social policies. In the case of established foreign controlled enterprises (i.e., enterprises with over 25 per cent of foreign equity), prior authorization is required both for takeovers and for diversification of activities in non-related areas.

262. In Canada, the Foreign Investment Review Act is concerned with the acquisiton of "control" of a Canadian business enterprise by foreign investors. Under the Act, the Government may allow only those new investments or acquisitions which are likely to bring "significant benefits" to Canada. The Foreign Investment Review Agency (FIRA) in determining what are the potential "significant benefits" takes into account inter alia commitments by the investor to increase local employment opportunities, provide for adequate Canadian equity participation, promote domestic sourcing of supplies and services, establish domestic research and development facilities and stimulate exports. In general, the proposals should also conform to Canada's industrial and economic development policies. The approval process involves detailed negotiations between FIRA and foreign firms to settle the specific performance obligations to be undertaken by those firms.

263. In Japan, under the 1980 amendment to the Foreign Exchange and Foreign Trade Control Law, the former authorization system has been changed into a prior notification system. However, the law provides, inter alia, for the amendment or suspension of the investment proposals in exceptional cases, for example, if they might adversely affect similar domestic enterprises. In practice, this criterion is applied only to the four specific industries (agriculture, forestries and fisheries, mining, oil and leather and leather products manufacturing) in respect of which Japan has entered a reservation to the OECD Capital Movements Liberalization Code.

264. As noted earlier, foreign technology has attracted greater interest in Japan than foreign direct investment. The guidelines and procedures applicable to international technology licensing contracts have not, however, been changed by the 1980 amendment. Pursuant to the Anti-Monopoly Act, Japan's Fair Trade Commission (FTC) reviews such contracts, using, since 1968, a set of guidelines or general prohibitions many of which are analogous to those found in the United States anti-trust laws or in use in the European Economic Community, and which are increasingly being adopted by some developing countries also. Broadly stated, FTC's prohibitions take the form of territorial or other restrictions on exports (except in three clearly defined situations), restrictions on purchase of competing goods or technology, tied purchases of raw materials and components, restrictions on distribution channels, restrictions on the selling price charged to the customer, grant-back of technology except on reciprocal terms and on the basis of a continuing obligation on the licensor to provide the licensee with improvements in the licensed technology, payment of royalties on products not using the licensed technology, utilization of obligatory materials or components, restrictions of any kind on the licensee after termination of the licence agreements, obligation to use the licensor's trademarks and the licensor's right to terminate the agreement unilaterally or at unreasonably short notice.

265. In France also, authorization procedures were modified in 1980. Broadly, they distinguish between inward investments originating from EEC and non-EEC countries.

In respect of the former, only prior notification is normally required, while the latter continues to require prior authorization. There are, however, some exceptions in both cases. For instance, prior authorization is required even for inward direct investment from EEC member countries if the investment is made by enterprises controlled by residents of non-EEC countries. Similarly, inward direct investments from non-EEC countries also require only prior notification if they are financed in foreign currency and if the value of the investments is less than Frs. 5 million per calendar year (without limitation, however, for real estate enterprises) or if the investments are made by non-residents who have already received previous authorization and whose percentage of participation in the enterprise does not thereby increase.

266. Although there are certain restrictions affecting further investment by resident foreign controlled enterprises, especially in the service sector, the policies of developed countries reflect generally their commitment to "national treatment" set out in the OECD Declaration and Decisions of 1976 and their view that once foreign investments have taken place according to established rules, the investors should not be subject to discrimination on the basis of nationality or deprived of their rights under international law. 19/

267. As observed earlier, the policies of developed market economy countries are not only founded on their commitment to market mechanisms for determining investment flows, but are also influenced by their dual role as "home" as well as "host" countries of such investments. Recent trends in their policies as "home" countries form the subject of the next section of this chapter.

C. Policies of home countries

268. For a broad analysis, the policies of developed market economy countries as "home" countries - that is, as countries of origin of foreign direct investment - may be grouped under three categories, according to the major objectives of such policies: first, those that involve government support to enhance the competitiveness of their enterprises in the international market place or that have a bearing on the outward flows of direct investment from them and other home countries; secondly, those that are related to their concern over the treatment and protection of their foreign investment in host countries; and thirdly, those aimed at securing for the home countries the full benefits of the foreign operations of their transnational corporations, especially receipts of tax revenues.

269. A few caveats are necessary to place these policies in perspective. The outward flows of direct investment from home countries are largely determined by the international investment strategies of the transnational corporations, which in turn, are influenced by a a large number of economic and non-economic factors in the host and home countries as well as the international market place. Many of these factors which influence the investment decisions of transnational corporations are beyond the control of the governments of home countries. While they can - and many of them do - play a supporting or catalytic role in assisting their enterprises to respond to investment opportunities abroad, their scope for actively influencing the transnational corporations to invest abroad is limited. The current recession and high levels of unemployment have eroded the ability of home governments to play even this limited role.

270. On the other hand, their policies - as well as the policies of developing countries as "host" countries - can influence significantly the flows of foreign

direct investment. As noted earlier, the upsurge in Japanese and European direct investment in the United States and the EEC countries in recent years is attributable at least in part to the import restrictions imposed by the host countries or to the threat of such restrictions. The main motivations for foreign direct investment flows to developing countries have been the existence of a sufficiently lucrative domestic market or of valuable natural resources and the investment conditions offered by the host countries. In general, if one country's inward investment is viewed as another's outward investment, the "pull effect" exerted by host countries, whether through import and other curbs or through the offer of attactive investment opportunities, would seem to play a more decisive role in the outward flows of foreign direct investment than any "push effect" exerted by the home countries themselves.

271. It should also be observed that the dividing line in the policies of developed countries - as "home" or as "host" countries - is rather blurred because they act in both capacities. For instance, in matters such as national treatment, acquisitions and mergers, avoidance of double taxation, transfer pricing and tax revenues, exchange of information and international co-operation and consultation, the policies reflect their position as both home and host countries.

1. Policies supporting or influencing outward investment

(a) Strengthening the competitiveness of enterprises of the home country

272. The policies of developed countries toward the outflow of direct investment vary considerably from one country to another, and even any one country's policies may vary from time to time. For example, whereas in the past the United States Government adopted a neutral posture, asserting that its fundamental policy was to "neither promote nor discourage inward or outward investment flows or activities", 20/ its recent pronouncements have emphasized outward private investment as the primary form of economic assistance to developing countries, indicating some modification of its approach. Furthermore, while most developed countries have not spelt out their policies in this area in specific laws and regulations, some have adopted a number of measures which have the effect of influencing or supporting the overseas operations of their transnational corporations. The most important of these relate to export credits and other forms of financial assistance, support for technological development and high technology industries, exchange rate movements and performance requirements for gaining access to the domestic market. There are, in addition, some other policies relating, for example, to anti-trust curbs, illicit payments and prohibition of exports of products and technologies in certain circumstances, which also have a bearing on the operations of transnational corporations.

273. Export credits have long been a mainstay of the measures taken by developed countries to boost their exports and they have often been used, in conjunction with other inducements, to wrest a competitive advantage in favour of their companies, particularly in high value contracts and projects. 21/ The lower interest rates charged for such credits in Japan and the EEC countries as compared with those charged in the United States have been a source of controversy between them, and after a series of discussions under the auspices of the OECD, a broad agreement was reached in 1982 that is aimed at narrowing the interest rate differentials.

274. Although export credits and subsidies fall primarily in the area of trade, their significance for direct investment and other forms of participation by

transnational corporations should not be underestimated. The total package of financing offered is tending more and more to affect decisively the choice of foreign companies for joint ventures, turnkey industrial and construction projects and even licensing arrangements (where, for example, a project is undertaken by State-owned entities) in the case of capital-intensive projects, especially in developing and socialist countries. The financing of machinery and equipment supplies assumes particular importance not only because resource development and other capital-intensive projects are becoming increasingly expensive, but also because the foreign contribution of equity capital and loans typically takes the form of such supplies in these projects. Even where the ventures are medium and small sized, foreign investment in developing countries tends to take the form of tied supplies of plant and equipment. For example, of a total investment by United States corporations of $1.9 billion in 113 projects assisted by the Overseas Private Investment Corporation (OPIC) in the fiscal year 1981, the initial procurement of machinery and equipment made in the United States will account for $1.6 billion, while follow-on procurement of production inputs in the first five years will account for $791 million. 22/

275. The growing stake of Japanese transnational corporations in East and South-East Asian countries - both in the form of direct investment and otherwise - has been strongly supported by official trade and investment credits. The lending by the Export-Import Bank of Japan to these countries increased nearly two and half times in fiscal year 1981 to over $2 billion, making them the largest recipients of Japanese government credits. In general, more than 80 per cent of Japan's Export-Import Bank lending has gone to developing countries. Such lending consists primarily of "suppliers credits" to Japanese exporters and "buyers' credits" to overseas buyers of Japanese industrial machinery and plants. But the Bank also grants "overseas investment credits", which are loans extended to Japanese investors for equity participation in overseas ventures or even to foreign borrowers for their equity participation in joint ventures with Japanese companies. A new form of credit of the Export-Import Bank that is expected to be more widely used in developing countries in the coming years is that of "direct loans" to finance special projects agreed upon between the Bank and a foreign borrower, especially those considered as of special priority by the Governments of Japan and the host country concerned. Such special projects will usually be high cost natural resource development projects, especially those in the energy and minerals sector, which are expected eventually to supplement or diversify Japan's sources of raw materials and energy. In addition to the Export-Import Bank, certain other public or semi-public agencies provide finance for Japanese overseas investment in developing countries, such as the Overseas Economic Co-operation Fund (OECF), Japan Investment Co-operation Agency (JICA), Japan Petroleum Development Corporation, the Metal Mining Agency of Japan and Japan Overseas Development Corporation. In these ways, official trade and investment credits go hand in hand with Japanese direct investments and other operations of Japanese companies abroad, and enhance the coverage and competitiveness of the total package offered by Japanese companies in developing countries. Such official financial support for their private sector, including official grants and highly concessional loans that can be used only for procurement of goods from the donor country, is extended by other developed countries as well, including France, the Federal Republic of Germany and the United Kingdom.

276. Government support for technological development and high technology industries is an increasingly topical subject in the current debate in developed countries as to the national policies necesary to enable their enterprises to stay

competitive in the international market place. Such concern is a reflection of the fact that technology-intensive industries hold the key to the future and that the technological gap between the United States, on the one hand, and Japan and several European countries, on the other, is closing fast. As has been noted by the OECD, "a reduction, and sometimes the elimination or even the reversal of the technological gap between the United States and many other OECD countries in a substantial number of areas" and the increasing capabilities of European and Japanese firms "to be sufficiently competitive in R and D intensive sectors to envisage production in the United States", coupled with some other financial factors, have largely been responsible for the rapid growth in the direct investment outflows from Japan and the Federal Republic of Germany to the United States since the mid-1970s. 23/

277. As far as France is concerned, the sharp increase in budget funds allocated to domestic research and development spending in fiscal 1983, the plan to augment such spending to at least 2.5 per cent of GDP by 1986, and the focus on high-technology industries in industrial policy have already been noted. In Japan - whose system of government-industry consultation and co-ordination is well known - a central element of the policy of promoting the competitiveness of Japanese enterprises in the "industries of the future" is the widening and deepening of scientific research and technological development in the relevant areas. In the United States, there is a growing concern that American firms are losing their traditional technological lead and increasing pressure on the Government to play an active part in arresting this trend and to formulate an industrial policy that would nurture the high-technology sector by means of specific growth incentives.

278. In general, the increasing importance of technology in the changing competitive conditions in the international market place, especially in the industries and services that are likely to hold the field in the future, is receiving specific attention in the policies of many developed countries. Special tax incentives for capital spending on research and development and official financial assistance for sponsored research can be expected to be granted on a more generous scale in the coming years. Joint research, technological co-operation, information exchange and cross-licensing arrangements as between transnational corporations of different developed countries or as between corporations of the same country, which have started appearing on the scene in recent years, can also be expected to grow in the future, often officially encouraged and supported by the governments of host countries, (e.g. in 1982 Japan's Ministry of International Trade and Industry (MITI) invited foreign computer companies to enter into information exchange agreements as part of a joint participation programme to develop a fifth generation computer; joint research and development or cross-licensing arrangements between transnational corporations in aerospace, telecommunications, semi-conductors, genetic engineering, pharmaceuticals, robotics and the like.)

279. The narrowing of the technological gap and joint participation in technological development by transnational corporations of different countries will obviously have wide implications for the future course of operations and participation of these corporations in both developed and developing countries. One particular consequence might be a slowing down of direct investment flows. As has been pointed out by the Committee on Internatonal Investment and Multinational Enterprises of the OECD, in analysing the deceleration of outward investment flows from the United States to Europe, "it would appear that the importance, in today's changed economic climate, of strategies to extend through international direct

investment the advantages that firms derive from their technological lead have decreased, given the generally smaller technological leads as compared with local competitors". 24/ Such advantages will be even less where there are joint participation arrangements between local and foreign transnational corporations or where there are "technological cartel" arrangements among local transnational corporations.

280. Among factors affecting international competitiveness and international investment, exchange rate movements have come to play an increasingly important part. Their different implications for exports, imports, inflation and investment abroad are, however, complex. For example, an appreciation in the value of a home country's currency has adverse consequences for exports, but may stimulate outward flows of foreign direct investment, as it renders the former more and the latter less expensive. The rapid growth in the outward investment flows from Japan and the Federal Republic of Germany - two countries whose shares of these flows have increased notably since the mid 1970s - is attributable at least in part to the rise in the value of their currencies. Similarly, there was some apprehension that the rise in the value of the pound sterling generated by North Sea oil revenues might, apart from depressing British exports, lead to outward flows of capital from the United Kingdom. While steady upward or downward trends in the exchange rates of particular countries may thus have an important bearing on the volume of inward and outward investment flows, the volatility of exchange rates and the tendency for movements in rates to "overshoot" the probable equilibrium levels have made decisions to invest abroad more risky and financial operations more uncertain.

281. Another factor which influences the international competitiveness of transnational corporations and which has received renewed attention recently, especially in the United States, is anti-trust policy. It has been argued that the relevant market for American enterprises should be the global market and that what is perceived as an excessive zeal to press the anti-trust policy in the domestic market is eroding the competitiveness of United States companies vis-à-vis foreign companies that are growing without being inhibited by similar constraints in their home countries. Advocates of a relaxation of anti-trust policy have therefore suggested that merger policy should focus only on "horizontal" mergers that involve direct competitors, while there should be no prohibition against conglomerate and vertical mergers, where the companies are engaged in different stages of production and are therefore not direct competitors against each other. It has been urged further that, if companies could not merge vertically in order to compete effectively in the international market, the United States would either have to resort to protectionism (which would only further hurt domestic industry) or accept a drop in the world market shares of American companies to the point where they will eventually be acquired by more powerful foreign competitors. 25/ On the other hand, the recent spurt in mergers and acquisitions by large companies has also raised concerns that they may lead to an excessive and unhealthy concentration of power and resources which could have other undesirable consequences, that financial resources which ought to have been devoted to new capital spending and to lessening unemployment are used unproductively in such mergers, and that they are likely to decrease rather than promote efficiency or competitiveness. The issues involved are complex and controversial and there is insufficient empirical evidence to permit general conclusions to be drawn. However, one major study carried out co-operatively by research institutions in seven leading industrial countries came to the conclusion that mergers in these countries had not generally led to enhanced profitability. 26/ There appears to have been a relaxation of merger policy and guidelines in the United States since 1980, and this may have been partly responsible for stimulating some of the biggest mergers in the country's history.

282. Recession, unemployment, trade deficits and inroads made in the domestic market by foreign, particularly Japanese, enterprises have aggravated protectionism in many developed countries, including the United States, notwithstanding a commitment to an open international economic system. Although they are primarily trade related, protectionist measures have serious implications for flows of direct investment as well. As was noted earlier, import restrictions in various forms, such as tariffs, quotas, orderly or prudent marketing arrangements, and anti-dumping measures and the like, coupled with the pressure to "invest where the market is", have largely been responsible for many of the recent Japanese direct investments in the manufacturing sector in the United States and EEC countries. The motivation here is, of course, very similar to that which caused many transnational corporations of the industrial countries to invest in developing countries that had initiated import substitution policies with the aid of protectionist measures.

283. At the same time, where foreign companies are subject to performance requirements which call for high level of local content, the flows of direct investment both ways, inward as well as outward, may be affected. Such requirements may inhibit foreign firms from investing in the country concerned for they may be unable or unwilling to comply with the local-content stipulations. In such a case, the performance requirements would in effect act as a barrier to foreign investment flows and as a protection to domestic producers. Although less obvious, they may also deter domestic firms from investing abroad in facilities for manufacturing parts and components or from entering into associations with foreign companies for the joint production of finished products.

284. Such consequences are conceivable particularly in the automotive sector, where for various financial and technological reasons connected with the world-wide scope of the industry, parts and components are being manufactured in different countries and international links are being forged among major automobile companies of Japan, Europe and the United States. Local-content requirements such as those envisaged in the United States Auto Content Bill referred to earlier would imply that domestic producers should refrain from undertaking foreign operations and should cease to import parts, components and finished products from their affiliates abroad. Hence local-content requirements prescribed in the industrial countries will tend to prevent the transnational corporations from locating the production of parts and components in the countries with the lowest cost structures.

285. There is a danger that performance requirements of a protectionist nature, if adopted in a leading sector, may spread to other sectors and become embedded in national policies. They might also spread to other countries, as has happened in the case of trade, where so-called "voluntary" export restraints and orderly marketing arrangements have become common. In the light of certain actual or expected associations between Japanese automobile companies and domestic companies in Australia, Italy, Spain and the United Kingdom, the EEC is being pressed by some of its members to redefine the meaning of "domestic product" and what should be subject to tariffs and quotas. There is a further danger that such tendencies, which are already noticeable in the move from domestic production requirements to government-mandated domestic-content requirements, might spread further and culminate in a demand for domestic ownership of the supplier of the products in question. There are instances where public procurement contracts are awarded to domestic producers on the basis of their ownership to the exclusion of domestic producers of foreign origin, regardless of the value added by them in domestic production.

(b) Investment flows to developing countries

286. In general, developed countries look favourably upon private investment flows to developing countries. Essentially, however, they take the view that, since such flows are or should be determined mostly by market forces, it is for the developing countries to establish conditions that will attract foreign investment. As noted earlier, some developed countries have recently emphasized that private investment flows should play a larger role in the mechanism for the transfer of financial resources to developing countries as compared with official development assistance.

287. In general, the fiscal systems of developed countries do not make provision for measures designed to favour direct investment in developing countries. It is true that several countries, taking account of taxes paid abroad, exempt foreign income from tax or allow foreign tax to be offset against domestic tax levied on world income. However, these exemptions or concessions are usually applicable equally to foreign income arising in both developed and developing countries. In other countries, foreign investment remains at a tax disadvantage. It should also be noted that in all developed countries special tax incentives available for domestic investment (such as tax credits and accelerated depreciation allowances) are not available for the same categories of foreign investment - a distinction which may act as a disincentive to foreign investment.

288. In particular, in the absence of double-taxation treaties with suitable provisions, tax incentives granted by developing countries may be nullified and simply lead to the transfer of tax revenues to the capital-exporting countries. To mitigate this situation, many developed countries, with the notable exception of the United States, now grant "tax sparing" in their treaties with developing countries. In this context, it is noteworthy that Singapore grants tax incentives only to those resident enterprises whose home countries have agreed to "tax sparing". Developing countries have generally been reluctant to conclude tax treaties on the ground that the conventional pattern of such treaties tends to favour capital exporting countries. The 1979 United Nations Model Double Taxation Convention between Developed and Developing Countries, culminating from earlier work in this area, has given a fresh impetus to the conclusion of such treaties by providing a framework that reserves greater taxing rights to developing countries in respect of dividends, interest, rents, royalties, management and technical services fees and by widening the definition of "permanent establishment" for business purposes. 27/

289. In the developed countries official financial support for private investment abroad has generally taken the form of export credits (designed, as noted earlier, primarily for promoting exports, but having the incidental effect of influencing the entire investment package), equity and loans for joint ventures or development finance institutions of developing countries, financial asistance for pre-investment surveys and feasibility studies, and loan guarantees. While export credits by their nature have largely benefited equipment manufacturers, the object of the other forms of support is mainly to assist small and medium sized enterprises. The Caisse Centrale de Co-opération Economique of France, Deutsche Entwicklungsgesellschaft of the Federal Republic of Germany, The Export-Import Bank and Overseas Economic Co-operation Fund of Japan, Finance Company For Developing Countries of the Netherlands, the Commonwealth Development Corporation of the United Kingdom and the Overseas Private Investment Corporation of the United States are among the major public development finance institutions of the developed

countries that provide such financial support and play a catalytic role in the flow of private investment to developing countries. In addition, they provide a variety of other promotional services such as the dissemination of information about investment opportunities in developing countries, identification of joint venture partners, investment advisory services and technical assistance programmes. It would appear that, since these institutions concentrate on small and medium sized enterprises and since their participation permits of flexible arrangements as regards foreign ownership and financing of the ventures, they have generally evoked a favourable response in developing countries.

290. Among the most recent policies of home countries for promoting private investment in developing countries mention should be made of the plan of the United States to provide duty free access to the domestic market for products from 23 Caribbean and Central American countries (provided that at least 35 per cent of the content of the products represents domestic value-added, of which 15 per cent could be United States made parts) and tax incentives for United States investment in those countries. Textiles, leather related products and petroleum or petroleum products are, however, ineligible to such duty free treatment. In particular, direct investment of United States companies in the countries concerned will qualify for tax credits in the United States in the same way as similar domestic investments, a tax treatment which has not so far been applied by any developed country elsewhere.

2. Treatment and protection of foreign investment

291. The principal concerns in the policies of home countries with regard to outward investment relate to the nature of the treatment and protection accorded to the investment once it is established in accordance with the host country's regulations. Such concerns vary in intensity , however, depending on whether the host country is a developed or a developing country. As between developed countries, the main thrust of policies is to ensure, on the one hand, the free flow of capital and, on the other, equal and non-discriminatory treatment ("national treatment") vis-à-vis national enterprises. In relations with developing countries, however, the stability of operating or contractual arrangements and the security of the foreign investment have received much greater emphasis in the home countries' policies.

292. The developed market economies share the conviction that the free international flow of capital is generally a desirable objective since it permits and promotes a more efficient international utilization of economic resources and thus encourages a more rational international division of labour that maximizes global economic welfare in the framework of increasing interdependence. This favourable approach towards outward foreign direct investment has a long tradition in the principal capital-exporting countries and, by and large, governs the policy of most developed market economies. The basic trend of the policy of almost all home countries is, therefore, to create and maintain a framework within which investment can flow freely between countries. 28/

293. The concern of home countries that affiliates of their companies in developed countries should receive treatment equal to that of national companies found expression in the 1976 OECD decision on "national treatment". 29/ The decision reflects the consensus of OECD member countries that foreign affiliates should (with certain qualifications) be granted treatment no less favourable than that accorded to local enterprises in comparable situations. The principle has

important ramifications in the areas of fiscal obligations, government aids and subsidies, access to local bank credits and capital expansion of foreign affiliates through further investment activities. Concerns regarding national treatment became more vocal after the recent adoption of certain policies in some developed market economies, e.g., Canada's ownership policy in the oil and gas sector and the use of performance requirements. In the 1976 decision on national treatment, country members of OECD agreed to notify the Organisation of any laws, regulations and administrative practices in effect at the date of the decision that constitute exceptions to national treatment. With respect to new exceptions introduced after that date, they agreed to specify the reasons for these measures and their duration.

294. Since the adoption of the decision, government measures bearing on national treatment have become more transparent 30/ and the scope and meaning of the instrument have been further clarified in order to make it more operational. 31/ In addition, the OECD Committee on International Investment and Multinational Enterprises and its Working Group have served as a forum for exchanges of views on various categories of exceptions to national treatment, and in 1981 formal consultations were held, at the request of several countries, on the subject of certain policies of another country considered to be at variance with the principle of national treatment.

295. Bilateral investment promotion and protection treaties with developing countries and political risk insurance for investments in these countries through official agencies continue to be the main instruments advocated and adopted by home countries to safeguard investments in developing countries. For their part, developing countries which have entered into such treaties have viewed them as a part of their incentives to establish conditions favourable to the flow of foreign investment.

296. Bilateral arrangements have taken two forms: first, the limited intergovernmental agreements for enabling insurance cover to be extended by official agencies of the home countries, as in the case of Canada and the United States. The United States has concluded such agreements with some 90 developing countries in order to extend political risk insurance for its investors through the Overseas Private Investment Corporation. Secondly, there are the more comprehensive and specialized treaties pioneered by the Federal Republic of Germany and Switzerland in the early 1960s. These treaties are designed primarily to safeguard the interests of the investors in the matter of national as well as most favoured-nation treatment, security of investment, nationalization and compensation, repatriation of capital and remittances of income, dispute settlement mechanisms and subrogation rights. Although more recent treaties speak also of promotion of foreign investment, they do not contain any specific provisions relating to such promotion on the part of home countries. Altogether more than 200 such bilateral investment protection treaties are thought to be in force now, the bulk being those concluded between developed countries and developing countries in the African (Nigeria is a notable exception) and Asian regions (India has been a notable exception since 1964). The Latin American countries have not, by and large, entered into such treaties because of their political and constitutional traditions.

297. Some noteworthy trends in this area since the latter part of the 1970s have been the conclusion of bilateral treaties between developed countries and socialist countries; conclusion of bilateral treaties between developing countries

themselves; a conspicuous increase in the number of bilateral treaties to which one of the parties is France, Egypt, Sri Lanka, or the United Kingdom; the inclusion of the International Centre for Settlement of Investment Disputes (ICSID) under the auspices of the World Bank as the arbitral agency for dispute settlement; and the interest expressed by the United States in the conclusion of such treaties. 32/

298. A number of developing countries as well as some independent observers consider that such treaties are unbalanced and can hardly provide the basis for enduring relationships. 33/ While governments are called upon to undertake long-term commitments and obligations, they are not compensated by corresponding responsibilities on the part of foreign investors.

299. It should not, however, be inferred that such developing countries follow a substantially different approach or policy with respect to the matters typically covered by such treaties. On the contrary, the laws and regulations and constitutional provisions of most developing countries and even specific national investment promotion and protection legislations of some countries (e.g. Bangladesh, Kenya, Pakistan, United Republic of Tanzania) deal with these matters in almost the same manner. Moreover, some of the largest investment flows from developed countries are channelled to developing countries with which they have not concluded bilateral investment protection treaties. It would appear that, if foreign investors consider the investment opportunities in a prospective host country to be attractive and are reasonably satisfied about the operating environment, they are unlikely to be deterred by the absence of a formal investment treaty between the host country and their home countries.

300. Related to investment protection treaties are the investment guarantee schemes under which home countries provide political risk insurance to investments undertaken by their investors in developing countries. Most home countries have set up official agencies for this purpose, the oldest and largest insurance scheme being that of the United States. As of 30 September 1981, the total insurance in force of the Overseas Private Investment Corporation of the United States covered risks valued at $8.5 billion, and the insurance coverage provided during the year ending on that date alone was $1.48 billion - the highest level in its 11-year history. 34/ Next in size are the insurance schemes of Japan ($3.3 billion as on 31 December 1977) and the Federal Republic of Germany ($755 million as on 31 December 1977), although in terms of the proportion of the stock of foreign investment in developing countries covered by such insurance, Japan - with 62 per cent - leads the major capital exporting countries. Taken together, however, the stock of foreign direct investment in developing countries that is covered by the investment insurance schemes of all the developed countries represents only about 10 per cent of the total stock. 35/ One reason for this low percentage may be that the schemes apply only to new investments. Another may be that their coverage is limited in comparison to the risk insurance schemes offered in the private markets, which may explain why the latter is used increasingly by investors.

301. The scheme for establishing a Multilateral Investment Insurance Agency is also being revived by the World Bank as one of the means of "moderating or removing some of the obstacles facing foreign investment". A similar proposal was considered in the 1960s and early 1970s by the World Bank, but was not adopted because it was considered "involved and elaborate" and because it was felt that most requirements were adequately covered by existing national schemes. The present scheme, designed on more modest lines, aims at complementing existing schemes and may start with

perhaps 12 or 15 countries - some OECD countries, some OPEC countries and some Latin American countries - in the expectation that in time other countries may find it to their advantage to join, depending on their investment opportunities. 36/

3. Safeguarding home-country interests

302. Home countries continue to follow policies that aim at ensuring that foreign direct investment activities are as beneficial as possible to them. This concern manifests itself especially in conditions attached by some home countries to capital and technology outflows; in the area of employment, with respect to performance requirements stipulated by host countries; and in the closer attention being given to tax revenues.

(a) Screening outward investment

303. Policies are applied in a number of home countries which make it possible to monitor the outward flows of capital and technology through informal linkages between government agencies and the business sector or through the requirement of formal prior authorization for such flows. 37/ In a few countries (e.g., Spain, Sweden), the criteria used to determine whether or not authorization should be granted are rather broad in that governments reserve to themselves the right not to authorize foreign-direct-investment projects which do not promote national objectives or which are deemed to be detrimental to the home country's interests. In most cases, however, specific criteria are applied. Often, they have their origin in exchange-control and balance-of-payments considerations which continue to be applied when the need arises. For example, exports of capital by transnational corporations based in the United States were limited for balance-of-payments reasons between 1965 and 1974 and a number of countries (including Finland, Ireland, Sweden, the United Kingdom) evaluate (or formerly evaluated) capital transfers in the light of their impact on the balance of payments. In this context, particular attention is given by a number of countries (including Australia, Italy, Japan, New Zealand, Portugal, Spain, Sweden) to the extent to which foreign-direct- investment projects promote their exports or are otherwise favourable to the balance on current account. 38/ Balance-of-payments considerations apart, other criteria that are used for determining the benefit of projects to the home country include the protection of existing investments abroad (e.g., Australia), the security of supplies of essential raw materials (e.g., Ireland, Japan), the destination of the investment (e.g., Australia, Japan), the sectors of the investment (e.g., Japan, Norway) and, perhaps most importantly, the impact of the investment on employment in the home country (e.g., Italy , Portugal, Sweden and others).

304. The export of technology (especially advanced technology) may also be subject to authorization. For most developed market economies, this is the case for high-technology exports to the socialist countries of Eastern Europe. In the case of the United States, controls are placed in a broader context through the Export Administration Act of 1979. The export of technology of a certain kind and description (normally related to security or foreign policy) is subject to authorization. In the fiscal year 1981, the Department of Commerce received 71,369 applications for licences to export technology and products, of which 63,889 were for exports to market economies and 7,480 to socialist countries; 57,200 of the former and 5,057 of the latter were approved, the remainder being either denied or returned without action. 39/

305. While many developed market economies have laws and regulations that permit them to intervene in the outward flows of foreign direct investment on the basis of these and other criteria, it is nevertheless relatively rare that such intervention occurs. Moreover, most of the principal capital exporters (Canada, Federal Republic of Germany, Japan, United Kingdom, United States) have hardly any regulations governing outward capital investments. The reason is partly the basic approach of these countries as outlined earlier, namely that foreign direct investment is generally considered to be desirable, and partly the general laissez-faire persuasion of most of the governments concerned. Still, even some major capital exporters (and others) are not always consistent in their liberal general approach to outward foreign direct investment.

(b) Concern for employment in the home country

306. An issue that is often debated in home countries is how far outward investment leads to an export of jobs. A number of studies have generally come to the conclusion that, if job creation due to induced exports of OECD countries are taken into account, the net employment effects in OECD countries are positive. 40/ It is also reported that those firms in the United States which are strongly oriented to foreign investment increased their employment at home faster than other United States manufacturing companies; their exports grew more rapidly than total exports of United States manufacturers and their balance of trade surplus increased substantially. 41/ The International Labour Office has also concluded in a recent report that transnational corporations do not export jobs to developing countries at the expense of domestic employment in industrialized countries. 42/

307. Still, particularly during periods of recession, governments and especially trade unions are very concerned about the possibility that transnational corporations export jobs, 43/ most notably in industries affected by import competition and the international restructuring of industrial activities. Thus, increasing unemployment in a number of industries at the beginning of the 1970s contributed to the efforts of the trade-union movement of Sweden to demand successfully greater monitoring of outward foreign direct investment in the light of its impact on the domestic employment situation. 44/ Labour unions in most other Western European countries and Japan have not, by and large, pressed for such a more restrictive policy, although the swelling unemployment figures in Western Europe during the last few years may produce a change in this attitude and has already led, in some countries, to a greater readiness to welcome incoming foreign direct investment. Virtually all labour unions and their international federations are, however, in agreement that improved information disclosure by transnational corporations is required 45/ in order that the activities of these corporations - including their effects on employment - may be evaluated and that mandatory international instruments are needed to control the corporations. 46/

308. Increasing unemployment was also at the root of the efforts of the United States trade-union movement to press for greater monitoring of outward foreign direct investment flows since the beginning of the 1970s. Such monitoring is meant to ensure that workers in the United States do not suffer from investment outflows, neither directly nor because an unregulated export of capital and technology impairs the overall industrial capacity of the United States. The export of jobs is seen to spread rapidly beyond manufacturing and into service industries. 47/ For this reason, the United States trade-union movement has advocated consistently that legislation should not encourage outward investment and technology flows. In this context, favourable tax treatment of transnational corporations and certain

preferences accorded by the United States Tariff Schedule usually receive special attention; 48/ the movement to phase out the Overseas Private Investment Corporation is traceable to similar considerations. However, greater monitoring is also meant to ensure that workers in host countries actually benefit from foreign direct investment. For this reason, the trade-union movement also urges that transnational corporations should respect the conventions and recommendations of the ILO, even if host countries have not ratified or accepted them.

309. Since the onset of the current recession, concern about employment has increased again, although to some extent the initiative has shifted towards other objectives. For example, much of the pressure of some trade unions in the United States in 1982 did not focus on monitoring outward flows, but rather on encouraging inward foreign direct investment and on the stipulation of performance requirements by the host country, both objectives having their origin in import penetration. 49/

(c) Performance requirements

310. Traditionally, performance requirements have been prescribed most commonly by host developing countries; there, as discussed in section A of this chapter, they have been stipulated for reasons connected with development. Such requirements in developed market economies - where, as discussed in section B of this chapter, they have been laid down mainly by less industrialized countries and those in which foreign direct investment plays a key role - have met with resistance from some home countries. Such requirements are regarded by some home countries as disincentives to foreign direct investment flows which, together with incentives by host countries, can lead to a misallocation of resources and a distortion of international investment flows and the trade flows associated with them. They may, in fact, give rise to a "beggar-thy-neighbour" policy in the area of foreign direct investment. While these possibilities are not new, their discussion has, of late, assumed greater importance.

311. As the principal home country, and prompted by its business sector, the United States has been foremost in urging the OECD to deal with incentives and disincentives, particularly as a follow-up to that Organisation's 1976 decision on "International investment incentives and disincentives". 50/ This decision focuses on measures having a specific link with inward and outward foreign direct investment. Its objectives are to increase the transparency of these measures and to avoid, through the exchange of information and consultations within the OECD Committee on International Investment and Multinational Enterprises, disputes that may arise from the excessive use of incentives or disincentives taken in one country and affecting the interests of other countries. At present, the Committee is concentrating on trade-related investment issues, such as preconditions and performance requirements linked to the authorization of investments or the granting of incentives. 51/

312. The issue of performance requirements has also been raised in GATT. There, the United States has initiated proceedings under the conciliation and dispute settlement procedures of GATT Articles XXII and XXIII, with a view to securing the cessation of a number of actions taken by Canada under its Foreign Trade Review Act. The United States does not dispute Canada's right to reject any particular investment proposals or to impose performance requirements as such. Rather, the United States is concerned about specific performance requirements which it considers to be in conflict with Canada's international obligations in the trade domain, especially as embodied in GATT. More specifically, the United States

maintains that to prescribe minimum proportions of inputs of domestic origin infringes the provisions of Article III of GATT on "National treatment in internal taxation and regulations" which, in its view, specifically forbids such mixing regulations in domestic production. On this view, local-content requirements have the effect of quantitatively restricting imports, which is proscribed by Article XI of GATT on the "General elimination of quantitative restrictions". The United States has also maintained that export performance requirements - that is, requirements that firms export specific proportions of their output, constituting a condition for government authorization of investment and establishment - inasmuch as the benefits deriving from the authorization lead to higher levels of export than would have been obtained under free-market conditions, constitute a subsidy within the meaning of Article XVI of GATT. Under this Article, subsidies on the export of a primary product should not have the effect of raising a country's export of that product to a level higher than its equitable share in world trade; and subsidies on the export of any non-primary product, which result in a lower export price than the domestic price, are prohibited.

313. To deal with these issues, it has been proposed that an international agreement should be negotiated with a view to regulating the recourse to performance requirements. In 1982, the United States submitted a proposal that GATT should take action in this matter. Under the proposal, which was considered at the GATT Ministerial Meeting in November 1982, GATT would have received and studied reports on national practices, such as local-content and export-level requirements, examined relevant GATT rules and explored ways of improving them in this regard; it was proposed that a decision on any necessary measures should be taken by 1985. Since the proposal encountered considerable opposition, no mention was made of the subject in the ensuing Ministerial Declaration. 52/

(d) Taxation

314. Governments of home countries have in recent years shown increasing concern about tax evasion or avoidance by transnational corporations and the realization of full tax revenues from their global operations. Measures taken by home countries, such as curbing the scope for using tax havens, 53/ limiting expense allowances and the deductibility of foreign losses, narrowing the range of foreign taxes than can qualify for tax credits, and tightening of the procedures to check transfer pricing practices, reflect their efforts to increase the tax revenues accruing to the home countries.

315. Many of these efforts to secure a larger share of the proceeds of taxes on income in home countries - or, for that matter, any country - require, to be successful, more than adjustments in the domestic tax structure. Most importantly, tax authorities must have a clear picture of the performance of transnational corporations in order to arrive at a fair allocation of income and taxable capacity between parent corporations and foreign affiliates. But, as a paper prepared by the United States Internal Revenue Service observed, "We are severely hampered by the lack of information" about transnational corporations. 54/ One of the material circumstances is that a transnational corporation's "outside accounting and legal counsel may be in one geographical location, the parent and several domestic subsidiaries in another, with foreign subsidiaries in several foreign countries. The books and records are scattered throughout the world. The complexities of intercorporate and interdivisional transactions (domestic and foreign) complicate the situation further". 55/ Tax-haven affiliates, which often occupy "a pivotal position in profit manipulation operations" 56/ add to the complications. As a

result, "U.S. experience has demonstrated that, even with detailed guidelines, the safe haven rules, and substantial disclosure requirements, an arm's-length profit margin or mark-up is still often an elusive phantom". 57/ In fact, as the Comptroller General of the United States reported: "in the modern economic system of multinational corporate business, a true arm's length price can rarely be identified." 58/ In these cases, it is necessary to calculate a "constructed price" for which certain guidelines are provided by the Internal Revenue Code, Section 482, to make the necessary adjustments. A special examination carried out by the Comptroller General for 519 United States transnational corporations (each having assets valued at over $250 million) revealed that only 3 per cent (12 of 403) of these adjustments to reported income from such transactions were based on a true arm's length price. 59/ In addition, the relevant regulations and the resulting enforcement process had created "an unacceptable level of uncertainty and a significant administrative burden both for corporate taxpayers and IRS examiners." 60/ Although the Comptroller General made recommendations for the adoption of alternative regulations (concerning which both the United States Treasury and the IRS expressed reservations), it was clear that neither the existing United States regulations nor the alternative regulations proposed could entirely overcome the difficulties and complexities inherent in the structure of transnational corporations. It is in circumstances such as these that issues pertaining to international tax avoidance and evasion continue to be a major concern of home countries.

316. A different approach, which is gaining acceptance, involves simultaneous examination programmes (or joint audits), which are an outgrowth of the exchange-of-information provisions of double-taxation treaties. Although the European Community has adopted a Directive that deals with international tax evasion and active steps have been taken to implement it fully, the United States pioneered the use of joint audits. Since 1977, the United States has entered into arrangements with Canada (1977), the United Kingdom (1978), France and the Federal Republic of Germany (1979) and Norway (1981) for exchanging information and conducting joint audits, particularly of transnational corporations with substantial operations in each of the treaty countries. Since the inception of the United States programme in 1977, about 20 transnational corporations have been selected for joint audits (out of a larger number of proposals), and the number of cases has been increasing over the years.

317. Double-taxation treaties entered into by the United States provide for the exchange of information between the appropriate authorities of the contracting States for the purpose of giving effect to the provisions of the treaty and preventing malpractice or evasion in the matter of income taxes. Tax information so exchanged is treated as confidential and is disclosed only to persons, including courts or administrative bodies, concerned with the assessment, collection, enforcement or prosecution of taxes covered by the tax treaty. Special provision is made under section 6103(k)(4) of the United States Internal Revenue Code for the disclosure of a tax return, or information contained in such a return, to the appropriate authority of a foreign country with which the United States has concluded a double-taxation treaty.

318. The joint audit programme is structured as a bilateral activity. However, where two or more treaty partners have initiated simultaneous examination programmes with the United States, the appropriate authorities of the countries concerned may agree to a combined or multilateral simultaneous examination of a corporation having affiliates within their taxing jurisdiction. 61/ Under the

programme, one country may identify a corporation for possible examination. The other treaty country then determines whether, from its standpoint, a simultaneous examination is appropriate. Neither country is obliged to examine entities selected by the other. Generally, taxpayers are selected for audit in the light of the extensiveness of operations in both countries, the scale of world-wide operations, the magnitude of inter-company transactions and the tax years involved.

319. Each country conducts its own examination of the taxpayer subject to its jurisdiction. Personnel of one country do not participate in the audit conducted by the other country. Where a transnational corporation has been selected for audit, the personnel of each of the countries involved in the examination co-ordinate plans, possible issues and target dates. However, the countries do not exchange formal examination plans. Primary responsibility for co-ordinating the examination rests with the country in which the parent corporation is located or, in the cases of the Federal Republic of Germany and Norway, where the taxpayer carries on the principal business. If the parent is not located in either of the two treaty countries, it is decided by mutual agreement which country will act as co-ordinator. Either country may withdraw from the simultaneous examination if the conclusion is that it is no longer purposeful to continue the examination.

4. Conflict and co-operation

320. The growing transnationalization of business transactions has brought with it increased possibilities for policies, laws and regulations of one country coming into conflict with those of other countries. Often, the potential conflict is inherent in the transnational nature of the operations of corporations and the need to deal with these operations on a basis broader than that of any one particular country. This need arises, for instance, in the matter of taxation and in the case of such service industries as banking, shipping, air transport and tourism which, almost by their nature, are (or have become) international in scope. A number of issues in these areas have to be dealt with on an international basis. Normally, these matters are treated under double taxation treaties and through the diplomatic channel; but sometimes countries extend or attempt to extend their own laws and regulations beyond their frontiers and, thereby, come into conflict with other jurisdictions. 62/

321. The risk of such conflicts increases when, particularly in the context of legal disputes, courts or parties to a dispute can initiate actions that lead to the subpoena of information from foreign affiliates or the review of conduct condoned abroad. While the latter is especially relevant in the context of antitrust questions, the former practice - which is most notably based in United States laws 63/ - has led to the enactment of laws and regulations in about half of the developed market economies aimed at blocking the furnishing of information under foreign legal orders. 64/ In spite of such blocking legislation, conflicts occur.

322. Conflicts are almost unavoidable when transnational corporations become a conduit for the implementation of foreign policy and when the attempt is made to apply laws and regulations extra-territorially. These conflicts occur in cases where the government of a home country treats foreign affiliates of transnational corporations headquartered in that country as its nationals, even though these affiliates are incorporated in the host country. In the past, conflicts of this kind arose primarily from the application of trade-boycott laws by the Government of the United States. The latest well-known example of this kind of conflict was

the embargo imposed on the shipment of high-technology products to the Union of Soviet Socialist Republics; the embargo affected also foreign affiliates of United States transnational corporations (and licensees of certain technology owned by such corporations) producing - with the full support of their host governments - gas pipe-line equipment for export to the USSR. The same principle was also at the source of the freezing of Iranian assets by the Government of the United States, an act that was not confined to assets in the United States alone but extended to dollar assets in branches of American banks in Western Europe, and indeed (indirectly) to other Iranian assets as well.

323. Another example of this kind of extra-territorial application of laws 65/ concerns illicit payments. Although most States treat as criminal offences corrupt practices of domestic public officials, only very few - including the United States since 1977 and Sweden since 1978 66/ - extend this treatment to questionable payments to foreign officials. Thus, under the United States Foreign Corrupt Practices Act, a United States corporation is potentially liable if it knows or has reason to know that a bribe is paid by its foreign affiliate, agent or employee to a foreign official, political party or candidate. However, since the Act came into force, only a few cases have been filed by the United State Department of Justice and the Securities and Exchange Commission and conflicts with other States on the application of this Act have been avoided. 67/ In this context, it is also noteworthy that the proposed adoption of an international agreement on illicit payments has not made much progress. 68/ As a result, the likelihood of conflicts arising out of illicit payments - an area of great concern during the mid-1970s - seems to have decreased considerably.

324. While conflicts of the types described above may be of an occasional nature, it is possible that conflicts of jurisdiction arising from the enforcement of national anti-trust or competition rules may become of increasing concern in the relations between countries, particularly developed countries. Such conflicts are often of two types. First, those in which the home country of the company or the host country of the subsidiary affected by another country's anti-trust enforcement action challenges the legal basis for the application of the foreign anti-trust law to the corporate entity operating in its territory. Second, those in which the foreign government affirmatively favours the transactions which would be halted or penalized under the anti-trust laws of another State.

325. The jurisdictional doctrine which has generated most conflicts is the "effects doctrine" which has been espoused by the United States, and has now been adopted, to some extent, in the Federal Republic of Germany and Sweden. Under this doctrine, the anti-trust laws of these countries may be violated by wholly foreign conduct that causes foreseeable and significant adverse effects on competition in their domestic markets. The attempts of the United States authorities to control foreign conduct on the basis of jurisdiction as to the effects of that conduct has been contested by other States. Scholars and government officials of other countries, particularly the Commonwealth nations, have attacked the "effects doctrine" as inconsistent with principles of international law regarding the territorial jurisdiction of States. A recent example of an acute form of such jurisdictional conflict is provided by anti-trust litigation involving a cartel of non-United States uranium producing companies and their governments on the one hand, and the United States company, Westinghouse, and the United States authorities on the other. 69/ When these authorities instituted a grand jury investigation of alleged anti-trust violations by the cartel, the other governments openly expressed their disagreement with the United States approach, withheld their

co-operation and went to the extent of initiating specific legal efforts to thwart the proceedings.

326. However, in another case, the OPEC anti-trust case, 70/ the United States authorities showed considerable restraint in their claims of extra-territorial jurisdiction. A trade union in the United States sought to recover damages from the OPEC countries in an anti-trust suit, on the ground that OPEC was a cartel having adverse effects on competition in United States domestic markets. The suit, however, failed on the ground that OPEC was primarily a political organisation of States that enjoyed sovereign immunity from the jurisdiction of United States courts. According to some eminent commentators, this decision "shows a renewed American judicial sensitivity to the need for sensible limits to U.S. extra-territorial jurisdiction - where foreign sovereign and United States policy interests are enormous". 71/

327. Various solutions to the problems of conflicting jurisdiction have been proposed and considered in recent years. First the principle of "comity", that is, according comity and some deference to the interests of other States, is increasingly recognized in a number of recent international documents. Thus the UNCTAD "Code" on restrictive business practices provides: 72/

> "... States ... should take due account of the extent to which the conduct of enterprises ... is accepted under applicable legislation or regulations, bearing in mind that such laws and regulations should be clearly defined and publicly and readily available." (sect. C, para. 6)

The Code further provides further that:

> "... States, particularly of developed countries, should take into account in their control of restrictive business practices the development, financial and trade needs of developing countries ..." (sect. C, para. 7)

328. Second, the Code provides for notification of anti-trust investigations and cases and for consultation in such matters with a view to minimizing jurisdictional conflict. The consultation procedure is set forth in section F, paragraph 4 of the Code:

> "(a) Where a State, particularly of a developing country, believes that a consultation with another State or States is appropriate in regard to an issue concerning control of restrictive business practices, it may request a consultation with those States with a view to finding a mutually acceptable solution. When a consultation is to be held, the States involved may request the Secretary-General of UNCTAD to provide mutually agreed conference facilities for such a consultation;
>
> (b) States should accord full consideration to requests for consultations and upon agreement as to the subject of and the procedures for such a consultation, the consultation should take place at an appropriate time;
>
> (c) If the States involved so agree, a joint report on the consultations and their results should be prepared by the States involved and, if they so wish, with the assistance of the UNCTAD secretariat, and be made available to the Secretary-General of UNCTAD for inclusion in the annual report on restrictive business practices."

329. Third, the OECD Recommendations of 1979 73/ envisage a conciliation procedure whereby a State concerned by a restrictive business practice originating in a foreign State would seek action by that State to correct the practice. Lastly, a few countries have concluded formal agreements for co-operation in anti-trust matters. The United States has entered into such arrangements with Canada (since 1959), the Federal Republic of Germany (since 1974) and Australia (since 1982). The United States/Australia Agreement provides for notification of government-approved agreements which may be inconsistent with the anti-trust legislation of the United States and for prior consultation concerning arrangements and their treatment under United States anti-trust law. The agreement provides for possible intervention by the United States Government to assist Australia in defending private anti-trust cases. In addition, it provides for co-operation between the anti-trust agencies of the two countries in regard to matters in which their policies and interests are not at variance.

330. Policies of home countries with respect to transnational corporations may no doubt lead to conflict and competition, and the risk is the greater in the present unsatisfactory international economic situation. At the same time, home countries have made efforts to co-operate and co-ordinate their policies. Most notable are the developments in the taxation area - especially as regards double-taxation treaties and joint audits - and the follow-up activities in the framework of the OECD concerning national treatment and incentives and disincentives.

331. Co-operation also extends into other areas. While home countries typically give priority to promoting and protecting outward foreign direct investment and securing fair and equitable treatment for their transnational corporations, they have also recognized that the operations of these corporations "may lead to abuses of concentrations of economic power and to conflicts with national policy objectives." 74/ Furthermore, they have shown a willingness, on the regional, inter-regional and international levels, to co-operate in the definition of standards of responsible behaviour on the part of transnational corporations and their foreign affiliates. The review and discussion of these efforts are the subject of the next section of this chapter.

D. International norms relating to transnational corporations

1. Introduction

332. The international regulation of transnational corporations has become one of the major endeavours of the world community within the past decade. Various agencies or bodies of the United Nations, regional organizations and international business and labour organizations have all been engaged in the formulation of international or regional or sectoral instruments spelling out standards and principles for the regulation and treatment of international business. These endeavours are inspired by two main perceptions of the role of transnational corporations in world development.

333. On the one hand, it is recognized that transnational corporations have the economic power and resources to act as effective instruments of development in developed and developing countries alike. On the other hand, the pervasive role attributed to these corporations in the world and the disclosure of certain instances of corporate misconduct have given rise to serious concern, at both the national and international levels, about their negative impact on economic

development and political and social affairs. The attempt to regulate their corporate conduct, particularly in developing countries, is matched by the desire to establish a régime of minimum standards for the treatment of transnational corporations. The object of these endeavours, then, is to create an international framework that would minimize the negative effects of the activities of these corporations, while maximizing their positive contribution to development.

334. The reason why such an international framework is perceived as necessary is that it is realized that national regulation and control are inadequate to deal effectively with the global strategies of transnational corporations. Many States, particularly small developing countries, have encountered difficulties in regulating transnational corporate conduct so as, on the one hand, to achieve such positive goals as consistency of the activities of transnational corporations with domestic laws, regulations and policies, adequate disclosure of information, and consumer protection; and, on the other hand, to prevent such negative activities as tax evasion, restrictive business practices, illicit payments and abusive transfer pricing. It is for this reason that a multilateral approach has commended itself to developing countries. Developed countries have likewise seen merit in the multilateral adoption of common standards of transnational corporate behaviour. As indicated below, the developed market economies have not only participated in global negotiations on international codes of conduct, but have also taken initiatives of their own in promulgating some of the instruments, such as the OECD Guidelines for Multinational Enterprises and the EEC Code of Conduct for companies operating in South Africa.

335. A multilateral approach is also helpful in settling intergovernmental disputes as to the treatment of transnational corporations within national jurisdictions, particularly where such jurisdictions impose conflicting requirements on various entities of transnational corporations.

336. Although transnational corporations were initially concerned about the various attempts to devise international instruments for the regulation of international business, some of them have come to recognize that appropriately designed international norms might contribute to the establishment of clear and stable "rules of the game", leading to greater security of investment. As they see it, such instruments could be particularly useful if they were voluntary and met a number of their concerns, such as equal treatment with domestic enterprises in comparable situations, equitable treatment from host governments and the application of the codes to State-owned, mixed as well as privately owned companies.

337. The international trade union organizations have in general actively supported the adoption of international instruments relating to transnational corporations. They favour the adoption of binding international agreements to deal, inter alia, with the social aspects of the activities of these corporations and, in particular, with the subjects of employment and working conditions, industrial relations and disclosure of information to the public, the governments of host countries and employees. In particular, the trade unions considered that TNCs should not only provide certain kinds of information to employees but should also afford the opportunity to the representatives of the employees to discuss this information. The international trade union movements have accordingly closely observed progress towards the preparation of international instruments in the International Labour Organization, the United Nations and in the Organisation for Economic Co-operation and Development. Short of legally binding agreements, they have advocated the establishment of effective implementation machinery both at the national and the

international levels. In addition, trade unions have sought international endorsement of the creation of "information and consultation bodies" within transnational corporations - bodies that would resemble the world councils established by various trade union secretariats for a number of such corporations. 75/ These efforts have led to the inclusion in certain instrument of a variety of provisions dealing with matters of concern to trade unions and, particularly in the EEC, to the introduction of a number of guidelines dealing with company-employee relations. 76/

338. Trade union organizations have also urged that the proposed codes should contain provisions enabling them to raise, in an appropriate international forum issues regarding the implementation of the codes with respect to conditions of employment. Where, as in the case of the OECD Guidelines, provision has been made for this type of representation, trade union organizations have made frequent use of it, thus contributing in some measure to the vitality of the instruments. 77/

2. International codes of conduct and guidelines for transnational corporations

339. The second half of the 1970s and the early 1980s have witnessed what one commentator 78/ has termed the efflorescence of international codes of conduct and guidelines prescribing norms for the regulation or treatment of TNCs. Some of these instruments attempt to establish a comprehensive framework dealing generally with a wide variety of issues relating to the operations of transnational corporations, while others are limited to specialized subjects or to specific regional concerns. Some have been finalized and promulgated; others are still under negotiation. Most of these regimes are "voluntary codes", that is, regulatory instruments which are adopted or to be adopted in the form of resolutions, decisions or declarations enunciating standards of corporate conduct or broad equitable principles, but which, on the face of the instruments, are not deemed to be legally binding or enforceable. At least one instrument will, when finalized, constitute an international agreement imposing legally binding obligations on the State parties.

340. Among the principal international codes of conduct and guidelines may be mentioned the following:

(a) The Guidelines for Multinational Enterprises adopted by the OECD Council in 1976 for the regulation and treatment of such enterprises in OECD countries;

(b) The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, adopted by the ILO Governing Body in 1977;

(c) The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, drafted by the United Nations Conference on Restrictive Business Practices, under the auspices of UNCTAD, and adopted by the General Assembly in its resolution 35/63 of 5 December 1980;

(d) The Draft International Code of Conduct on the Transfer of Technology, still being negotiated under the auspices of UNCTAD;

(e) The International Code on the Marketing of Breast-Milk Substitutes adopted by the World Health Assembly in 1981;

(f) The Guidelines Governing the Protection of Privacy and Transborder Data Flows of Personal Data, promulgated by OECD in 1980;

(g) The EEC Code of Conduct for companies operating in South Africa, issued by the Council of Ministers of the European Community in 1978;

(h) The Draft International Agreement on the Prevention and Elimination of Illicit Payments, still under consideration in the Economic and Social Council;

(i) The United Nations Code of Conduct on Transnational Corporations, still being negotiated under the auspices of the Commission on Transnational Corporations.

The next section deals, at some length, with the negotiation of the most ambitious of these international instruments - the United Nations Code of Conduct. This account highlights the main issues on which the approaches of participants in the negotiation process have differed.

3. The draft United Nations Code of Conduct on Transnational Corporations

341. The Code of Conduct being negotiated under the auspices of the Commission on Transnational Corporations represents a major endeavour of the international community to promulgate a comprehensive international instrument regulating the whole range of relations between governments and transnational corporations and covering a wider range of issues than any of the other existing or proposed international instruments. It envisages a global mechanism that will be open to the participation of all States. The present draft Code was formulated by the Intergovernmental Working Group, a subsidiary body of the Commission established in 1975 and consisting of 48 States.

342. Since its first session in January 1977, the Intergovernmental Working Group on a Code of Conduct has held altogether 17 sessions. The Commission on Transnational Corporations, at its sixth session, in July 1980, reviewed the progress made by the Group on the formulation of the Code of Conduct and made recommendations to the Economic and Social Council as to further guidelines for the evolution of the Code. Accordingly, the Economic and Social Council, by resolution 1980/60 of 24 July 1980, affirmed that the Code should:

"(a) Be effective, comprehensive, generally accepted and universally adopted;

"(b) Associate effectively the activities of transnational corporations with the efforts to establish the new international economic order and their capabilities with the developmental objectives of the developing countries;

"(c) Reflect the principle of respect by transnational corporations for the national sovereignty, laws and regulations of the countries in which they operate, as well as the established policies of those

countries and the right of States to regulate and accordingly to monitor the activities of transnational corporations;

"(d) Encourage the contribution that transnational corporations can make towards the achievement of developmental goals and the established objectives of the countries in which they operate, particularly the developing countries;

"(e) Proscribe subversion, interference in the internal affairs of countries and other inadmissible activities by transnational corporations which aim to undermine the political and social systems of the countries in which they operate;

"(f) Deal in the most effective and appropriate manner with the issue of the activities of transnational corporations in South Africa and Namibia, recognizing that concern was widely expressed in the Commission on Transnational Corporations, in the context of the struggle against apartheid, at the collaboration by transnational corporations with the racist minority régime;

"(g) Include provisions relating to the treatment of transnational corporations, jurisdiction and other related matters;

"(h) Provide appropriate arrangements for the effective implementation of the code;

"(i) Be considered as an integrated whole in which all the parts are related to each other".

343. The Intergovernmental Working Group submitted its final report, 79/ containing the text of the draft Code as it then stood, to the Commission at its eighth session (30 August-10 September 1982).

344. Although the draft Code of Conduct contains definitive formulations for many substantive provisions, the entire Code was not finalized. On the recommendation of the Commission at its eighth session, the Economic and Social Council, in its resolution 1982/68 of 27 October 1982, decided that the Commission on Transnational Corporations should hold a special session open to the participation of all States early in 1983 for the purpose of completing the Code of Conduct. It affirmed in this resolution that it "attaches the highest priority to the expeditious conclusion of a comprehensive and integrated code of conduct on transnational corporations that will be effective, generally accepted and universally adopted". It also decided that the work on the code at that special session should be based on the work done thus far by the Commission and the Intergovernmental Working Group as reflected in the report of the Group, on the understanding that the work of the Commission in special session would be pursued in those areas where no provisions had been finalized by the Group, priority to be given to certain sections specified in the resolution. The Economic and Social Council requested the Commission to submit the full and final draft Code of Conduct to the Council for its consideration and transmission to the General Assembly at its thirty-eighth session for consideration and appropriate action.

(a) Structure of the code

345. The draft Code of Conduct consists of six main parts (chapters). 80/ The first part, which has not yet been drafted, is to contain a preamble and a statement of objectives. The second part consists of a set of provisions on definitions and the scope of application of the Code. The third part is the longest and deals with the activities of transnational corporations. It contains provisions relating to transnational corporations and specifying the kinds of conduct that are deemed permissible and proper by the governments that will eventually adopt the Code. A first set of paragraphs covers general and political matters; a second set deals with more specific economic, financial and social issues; and a third set contains an important series of provisions on disclosure of information by transnational corporations. The fourth part of the Code deals with the treatment that transnational corporations are to receive from the governments of host countries and with questions of nationalization, compensation and jurisdiction. The fifth part of the Code addresses the necessary co-operation among governments for the application of the Code, while the sixth part deals more specifically with the action needed at the national and international levels for the implementation of the Code.

(b) Evolution of the code

346. The Intergovernmental Working Group initially received a list of concerns and issues to be considered in the formulation of a code of conduct from governments of developed, developing and socialists countries, as well as proposals from business organizations, trade unions and other non-governmental groups. The Centre on Transnational Corporations classified these concerns and issues under a number of headings. These headings later became an annotated outline of the Code, prepared by the Chairman of the Intergovernmental Working Group. In the light of the, discussions of the suggestions contained in this annotated outline the Centre prepared a number of working papers identifying and determining "common elements" and presenting "tentative formulations".

347. On the basis of the discussion in the Intergovernmental Working Group, the Chairman prepared and presented a set of formulations covering the central parts of the proposed Code. The "Chairman's formulations" were gradually supplemented, so that they eventually covered the entire body of the Code.The composite text of formulations by the Chairman and elements prepared by United Nations Centre on Transnational Corporations 81/ was the first text in which normative language was used; it consisted of tentative formulations of provisions on which common positions appeared to have materialized, together with comments and a listing of other points on which consensus was not apparent. Like its predecessors, this text was treated only as a basis for discussion, not as an agreed text, so that the positions of participating delegations were in no way prejudged.

348. After a final round of general discussions, the Intergovernmental Working Group entered into the second main phase of its work. In January 1980, it started to draft what was hoped to be a definitive text. This exercise was originally based on the "Chairman's formulations". Subsequently, frequent references were made to the text of the draft proposal for a Code submitted by Venezuela on behalf of the Group of 77. 82/ This modified procedure did not detract from the Working Group's basic commitment to producing a common text acceptable to all delegations.

349. The Intergovernmental Working Group sought to obtain a broad consensus on the many questions it dealt with, at no time having recourse to formal or informal voting. It arrived at the formulation of "concluded" provisions, that is to say, provisions that had been fully discussed, without necessarily arriving at full agreement, however. The result is the Draft United Nations Code of Conduct contained in the annex to the Group's final report. Provisions on which agreement has not been reached so far are enclosed in square brackets to indicate alternatives for the provision in question or the specific sections on which agreement is still lacking. In some instances, such brackets signify serious disagreement among delegations on the appropriate standard of behaviour to be prescribed, while in some cases they indicate only the deferral of a decision on a particular question pending consideration of other questions.

(c) Status of the negotiations

350. The draft Code consists of 71 provisions, excluding the uncompleted section on the preamble and objectives. Out of the 71 provisions, rather more than half are fully agreed on; they contain definitive language acceptable to all delegations.

351. Among the agreed provisions are standards relating to very complex and sensitive issues, such as adherence to socio-cultural objectives and values, ownership and control, balance of payments and financing, taxation, consumer protection, environmental protection, disclosure of information, intergovernmental co-operation and implementation.

352. As to the bracketed provisions, the Chairman of the Group made the following assessment when introducing the Group's report at the eighth session of the Commission:

> "More than half of the bracketed paragraphs contain brackets which could be removed without great effort.
>
> "I am referring to bracketed alternatives, such as 'refrain from' as opposed to 'not resort to', where it is difficult to detect substantive points of disagreement.
>
> "Further, in a number of paragraphs the brackets are consequential, i.e., they refer to problems which appear in other parts of the Code. Once these problems are resolved, those brackets can be eliminated.
>
> "When reading the draft Code it is important to have in mind that the nature and significance of the existing brackets vary considerably. When it all boils down, the hard-core issues are few - approximately five or six.
>
> "With a view to facilitating future final negotiations, yet to be decided by the appropriate bodies, I invited the Group to undertake a cleaning exercise during its last two sessions. By reducing the number of less significant brackets it would be easier to concentrate future discussions on the real problems. This approach, however, was only partially successful. Working on the implicit assumption that a next negotiating phase would come, which would not involve the Working Group, delegations were anxious not to make concessions that might become more rewarding in the next round. Similarly, individual delegations went about formulating their positions in brackets with considerable ambition. This led to a proliferation of bracketed

texts which sometimes makes it difficult for the reader to understand the real disputed issue.

"As far as the five or six hard core difficulties are concerned, the texts do not always reflect the negotiating situation adequately. From a purely formal point of view it is quite possible to distinguish the various positions. Merely judging from the differences among these positions, one might be tempted to conclude that delegations are far apart and that consensus solutions are remote. This would not be fully correct however. As a matter of fact, the Group has done a good deal of negotiating on compromise solutions regarding several of these issues. Although commanding wide support, agreement on these compromise solutions eluded the Group at the very last moment. Hence, the Group was frequently closer to agreement than the text of the draft Code suggests.

"I am emphasizing these points, because an uninitiated reader might otherwise get a false impression of the results actually achieved." 83/

4. Major outstanding issues

353. The Economic and Social Council in resolution 1982/68 directed that the "work of the Commission in special session will be pursued in those areas where no provisions have been finalized by the Intergovernmental Working Group, priority to be given to the sections entitled: 'Preamble and objectives'; 'Definitions and scope of application'; 'Activities of transnational corporations', including the question of southern Africa; and 'Treatment of transnational corporations'." The major issues still outstanding on which future negotiations are likely to concentrate are described in some detail below.

(a) The legal nature of the Code

354. Although the legal nature of the Code was exhaustively discussed by the Intergovernmental Working Group, its final determination was, by consensus, deferred to the concluding phase of the negotiations and is still pending. Many delegations maintain that the Code should be mandatory or legally binding. More specifically, they consider that it should take the form of a convention, treaty or other legally binding multilateral agreement that would oblige the parties thereto to enforce the provisions of the Code in their States and would also make provision for some international enforcement machinery to reinforce national action. Others take the view that the Code should be of a voluntary or non-mandatory nature, that is, it should contain broad principles or guidelines to be observed by all parties concerned, but not legally enforceable rules. Such a code might, in their view, take the form of a resolution of the General Assembly. It is recognized that whatever is decided about the legal character of the Code affect other parts of the Code, such as the "Preamble and objectives" and the provisions concerning implementation.

355. Pending the final resolution of this issue, the Intergovernmental Working Group adopted the formula of "shall/should" in its formulations to denote the mandatory and non-mandatory positions respectively. All delegations were, however, fully committed to an effective Code, irrespective of its legal nature.

(b) Preamble and objectives

356. The Intergovernmental Working Group had only a preliminary discussion of the preamble and objectives and did not draft any formulations. The Group, however, substantially endorsed the suggestions made by the United Nations Centre on Transnational Corporations 84/ as to the points to be covered in the preamble. In particular, the Group indicated that the preamble should refer, inter alia, to the impact of transnational corporations on the international economy and the concern about their activities that had given rise to national and international regulatory measures. There was also consensus that the preamble should stress the need for an effective application of the Code by establishing a framework for international co-operation to supplement national action. Furthermore, the Group suggested that the main objectives of the work of the Commission should be mentioned in the preamble.

357. As regards the principles, goals and objectives to be referred to in the preamble, many delegations emphasized, inter alia, the principle of full respect for national sovereignty; the permanent sovereignty of States over their natural resources, wealth and economic activities; non-interference in internal and intergovernmental affairs; and the right of States to regulate and control the activities of transnational corporations. Several delegations emphasized that a reference to those principles would have to be balanced by a reference to, inter alia, international law, the protection of legitimate activities and the principle of fair treatment. It was also stated that the formulations in the preamble should be balanced and should refer to the positive contributions of transnational corporations. Several delegations also felt that among the principles specific mention should be made of the importance of a universally adopted Code.

358. At its fourteenth session, the Working Group had before it the Chairman's formulation of the preamble and objectives 85/ and a text on the same subject proposed by Venezuela on behalf of the Group of 77. 86/ However, neither formulation was ever discussed by the Group before the expiration of its mandate.

(c) Definitions and scope of application

359. A major outstanding issue concerns the definition of the meaning of "transnational corporation" and the precise scope of application of the Code. The Intergovernmental Working Group agreed on the need for such a definition for the purposes of the Code; it would specify the main characteristics of a transnational corporation and, thereby identify in unequivocal terms the enterprises to which the Code would be applicable. Some progress has been made in this area. The alternative formulations in paragraph 1 (a) of the draft Code share common ground in defining a transnational corporation as an enterprise (i) comprising entities in two or more countries, regardless of the legal form and fields of activity of these entities, (ii) which operates under a system of decision-making, permitting coherent policies and a common strategy through one or more decision-making centres, (iii) in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of others, and, in particular, to share knowledge, resources and responsibilities with the others.

360. The point of departure is the nature of the ownership of the enterprise. Most delegations were of the view that the Code should have the widest possible application and should accordingly apply to all enterprises satisfying the three

criteria mentioned, irrespective of the nature of their ownership, i.e whether privately owned, mixed or State-owned. These delegations, therefore, favoured a comprehensive formulation that would expressly dismiss the relevance of the ownership criterion, as in the second alternative in paragraph 1 (a) of the draft Code.

361. It was, however, urged by some delegations that the definition of "transnational corporation" should reflect the circumstances that had led to the mandate for the formulation of a code of conduct and that the Code should therefore apply to that category of corporations only, whose conduct had been the principal reason for the establishment of the Commission and the elaboration of a code of conduct, that is, corporations whose activities have so far been beyond effective control and regulation. These delegations insisted, therefore, that the definition should not cover State-owned and socially owned self-managed enterprises which were under the effective control of governments and national authorities. Furthermore, to circumscribe the category of corporations to be covered by the code, they proposed that the motivation of transnational corporations' activities, that is, profit maximization, should be mentioned as an additional criterion. The definition would thus be strictly limited to private corporations. It was also urged by these delegations that, in any case, the issue of ownership could be finessed by deleting any reference to the nature of ownership, viz "whether of public, private or mixed ownership", from the definition, as in the first variant of paragraph 1 (a) of the draft Code.

362. Closely related to the question of definition is that of the scope of application of the Code. Some delegations insisted that the Code should be universally applicable in all States and, hence, should be adopted by all States.

363. Others maintained that the scope of application was inseparable from the substance of the terms of the definitions and accordingly contended that the Code should be universally applicable in home and host countries of transnational corporations, as ultimately defined in paragraph 1 (a) of the Code.

(d) Activities of transnational corporations

364. Although the Intergovernmental Working Group was largely successful in finalizing the norms governing the activities of transnational corporations, a few key issues still remain unresolved. The reason was partly that some delegations reserved their final positions on some of the standards proposed in this part of the Code pending the outcome of negotiations on other parts. Thus, with regard to the provision in paragraph 6 of the draft Code requiring transnational corporations to respect national sovereignty, some delegations resisted the extension of the formulation to include the right of each State to exercise permanent sovereignty over its natural resources, wealth and economic activities, on the ground that they could only accept such a broad formulation if it were balanced by a reference to international law or internationally acceptable standards on the treatment of transnational corporations. Most delegations, however, maintained that the concept of permanent sovereignty over natural resources, wealth and economic activities was a well-established principle of international law, fortified by numerous United Nations resolutions, and had to be duly reflected in the Code.

365. There was also divergence of opinion as to whether all references to the economic goals and development objectives, policies and priorities of host countries should be qualified by the term "declared" or "established" (para. 9

of the draft Code). Some delegations questioned whether transnational corporations could or should be expected to make a contribution to such goals, objectives, policies and priorities without reference to the financial, technological and managerial resources and capabilities of the transnational corporations in question or the nature, purpose and extent of their business operations. These delegations similarly urged that the provision prohibiting activities of transnational corporations that would adversely affect the balance-of-payments position of host countries should be qualified by the phrase "beyond generally accepted financial practices" (para. 32 of the draft Code). Most delegations, however, insisted that none of these qualifications were practicable or necessary and that they should accordingly be deleted.

366. As regards non-interference in internal political affairs, the Intergovernmental Working Group reached agreement on paragraph 16 of the draft Code which prohibits transnational corporations from engaging in activities of a political nature that are not permitted by the laws and established policies and administrative practices of the countries in which they operate. No consensus was, however, reached on paragraph 15 of the draft Code. Many delegations insisted on an unqualified prohibition of interference by transnational corporations in the internal affairs of the countries in which they operate and of any activities which undermine the political and social systems of these countries. Some delegations considered that the provisions should explain the notion of interference by referring to illegal interference and illicit activities. It was thought, however, by many delegations that no such qualifications were called for. Still other delegations expressed the view that the notion of non-interference would be sufficiently explained by a clear link to the undermining of political and social systems or by qualifying the reference by using the term "subversive activities". Other delegations maintained that "internal affairs" was too general a notion and that the paragraph should refer to internal political affairs.

(e) Non-collaboration by transnational corporations with racist minority régimes in southern Africa

367. The Intergovernmental Working Group agreed that the Code should acknowledge and make express reference to the efforts of the international community towards the elimination of apartheid in South Africa and its continued illegal occupation of Namibia by the South African regime, and that accordingly the rules relating to activities of transnational corporations in southern Africa should be prefaced by an introductory passage on the following lines:

> "In accordance with the efforts of the international community towards the elimination of apartheid in South Africa and its continued illegal occupation of Namibia" (para. 14 of the draft Code).

There was, however, no consensus as to the substantive provisions of paragraph 14.

368. Most delegations maintained that the Code of Conduct should explicitly require transnational corporations to reduce progressively their business activities in South Africa and to cease immediately all activities in Namibia, citing the relevant resolutions of the General Assembly, the Security Council and the Economic and Social Council dealing with southern Africa. These delegations maintained that the continued presence of transnational corporations in southern Africa reinforced the policy of apartheid and South Africa's illegal occupation of Namibia. Since

the Code of Conduct would deal extensively with the activities of transnational corporations and would contain an express provision on respect for human rights and fundamental freedoms by transnational corporations, it should also deal explicitly with the most pressing problem in southern Africa.

369. During the thirteenth session of the Intergovernmental Working Group, the position of the African Group of countries participating in the deliberations was summarized as follows:

> "The Code must refer to the objective of the international community, which is to eliminate or eradicate apartheid ... and to bring about a termination of the illegal occupation of Namibia. Towards this end, transnational corporations should be called upon to terminate all further investments in that area and to progressively withdraw existing operations; as a minimum, they must not collaborate with the racist minority régime of South Africa. Secondly, transnational corporations should be called upon to comply strictly with Security Council decisions and observe all relevant United Nations resolutions. Thirdly, they should be called upon to engage in all appropriate activities with a view to eliminating all forms of racial discrimination and the whole system of apartheid." 87/

Other delegations, while supporting the broad objectives of eliminating apartheid and achieving the independence of Namibia, considered these to be political questions that would more appropriately be treated by other bodies of the United Nations. In any case, they preferred a formulation on activities of transnational corporations in South Africa and Namibia more general than that advocated by the countries mentioned in the preceding paragraph. They believed that an evolutionary development would serve the aims of the international community in this area better than a cessation of all economic activities.

(f) Treatment of transnational corporations

370. The fourth part of the draft Code, entitled "Treatment of transnational corporations" deals with the important and difficult issue of relations between governments and transnational corporations. The topic is itself controversial and is linked to broader questions on which considerable disagreements on principles exist in the international community. Among the fundamental questions in this area are (1) whether there are universally recognized principles of international law prescribing minimum standards for the treatment of foreign companies which national law should respect, and (2) whether the concept of national sovereignty dictates that all aspects of such treatment are to be governed by national law, subject to any international agreement or arrangement to which the State concerned has freely subscribed. In the face of these time-honoured controversies, attempts were frequently made by the Intergovernmental Working Group to arrive at compromise formulations which skirted the intricate ramifications that were considered divisive. These attempts were not, however, successful. In these circumstances, it is not surprising that, at this stage of the preparation of the Code, the draft still has a large number of provisions which contain bracketed language.

(i) General treatment

371. The first set of paragraphs of the draft Code under this heading (paras. 47-53) deals with the general treatment of transnational corporations by the countries in which they operate.

372. There is general agreement on the first of these paragraph, which asserts the right of the State to regulate the entry and establishment of transnational corporations, to determine the role they can play in national development and to prohibit or to limit their presence in particular sectors. There is, however, considerable difficulty in specifying the standards of treatment which transnational corporations and their entities should receive in the host countries. One group of delegations insisted on a formulation that would refer to fair, equitable and non-discriminatory treatment, in accordance with both national and international law. Another group objected to references to fairness and non-discrimination, as well as to international law in general, preferring a reference to intergovernmental obligations or to international obligations freely subscribed to by the governments concerned. Compromise proposals have used the term "international obligations" to cover all relevant rules.

373. On other aspects of the general treatment of transnational corporations, several draft provisions were proposed by one group of delegation. For example, one proposed paragraph would affirm the importance of endeavours to ensure the clarity and stability of national laws, regulations and practices. It specifies that laws and regulations should be publicly and readily available and that changes in these texts should show due regard for the legitimate rights and interests of all parties concerned, including transnational corporations. Another proposed provision concerns facilitation by governments of personnel transfers among entities of a transnational corporation, in order to enhance the managerial and technical training of nationals of the host country. Another disputed paragraph provides for the free and unrestricted transfer by transnational corporations of all payments relating to their investments, without prejudice to other provisions, especially those regarding the phasing of capital payments and remittances of accumulated profits. However, some other delegations felt that none of these provisions should form part of the Code.

374. The inclusion of a chapter on the treatment of TNCs by host countries has been a continuing source of controversy. The developed market economy countries have consistently urged on the elaboration of norms prescribing minimum standards for the treatment of TNCs to ensure a balanced Code. Although the developing countries were initially opposed to such provisions they appear prepared to acquiesce, provided, that the content of such norms does not substantially encroach on their sovereignty. The socialists countries have a more deep-seated objection to the incorporation of norms of conduct for governments on the ground that every State has the unfettered sovereign right to regulate economic activities in its territory and to dispose of the natural and wealth it contains. They have accordingly pressed for formulations on treatment that would only take into account the different views expressed.

(ii) National treatment

375. A key issue that arises in the process of formulating international codes and arrangements relates to national treatment. The positions of developed, developing and socialist countries have differed sharply on this question.

376. For the developed market economy countries the principle of national treatment, which means essentially equality of treatment for foreign and domestic enterprises, is of paramount importance. Thus, one of the three instruments adopted by the OECD member countries relating to transnational corporations provides that "member countries should, consistent with their need to maintain

public order, to protect their essential security interests and to fulfil commitments relating to international peace and security, accord to enterprises operating in their territories and owned or controlled directly or indirectly by nationals of another member country (hereinafter referred to as Foreign-Controlled Enterprises) treatment under their laws, regulations and administrative practices, consistent with international law and no less favourable than that accorded in like situations to domestic enterprises (hereinafter referred to as National Treatment)". 88/ In addition, member countries of OECD are invited to consider applying such national treatment in respect of enterprises from countries other than member countries.

377. The developing countries, however, have deep reservations about the principle of national treatment. They feel that non-discriminatory treatment for foreign and domestic enterprises would in practice amount to discrimination in favour of transnational corporations - in view of the different capabilities of the two types of enterprises. Developing countries have accordingly taken the position that such a principle would conflict with efforts being made to strengthen their own enterprises in order to promote autonomous and self-reliant development. 89/ It is for this reason that none of the international instruments so far agreed to by developing countries has embodied the principle of national treatment - regarded by them as in effect equivalent to preferential treatment. For instance, in the Charter of Economic Rights and Duties of States contained in General Assembly resolution 3281 (XXIX) of 12 December 1974, it is stated that "No State shall be compelled to grant preferential treatment to foreign investment". Analogous provisions can be found in the Andean Foreign Investment Code.

378. In the negotiations on the Code of Conduct, the developing countries have accordingly insisted that the various proposed provisions on national treatment should be qualified by terms taking into account their peculiar developmental concerns. Specifically, they have asked for the inclusion of a clause whereby national treatment would be given to transnational corporations only if compatible with and not prejudicial to the country's economic goals and development plans. The socialist countries are also unequivocally opposed to the inclusion of any provision on national treatment on the ground that it is incompatible with the fundamental principles underlying their social and economic system.

379. While it is agreed that an appropriate qualification is needed that would reflect these various concerns, the scope of such a qualification remains to be settled. All the proposals on the principle of national treatment recognize the need for a qualification to the effect that, whatever may be the exact duty of host governments towards foreign enterprises, it is overriden by the need to maintain public order and to protect national security. Other suggested overriding qualifications include references to national constitutional systems, national economic interests or essential interests and to provisions of international agreements. The essence of the duty of host governments in the concept of national treatment is thus seen as the provision of appropriate treatment or of treatment no less favourable than, or of the same treatment as, that accorded to domestic enterprises under national law, in either similar, identical or like situations. Additional provisions proposed would, in one case, not make transnational corporations eligible for preferential treatment or for the incentives granted to domestic enterprises and, in another case, would state only that the treatment accorded to transnational corporations would not necessarily include extension to them of incentives given to domestic enterprises in specified circumstances.

(iii) Nationalization and compensation

380. Another set of key issues in the Code concerns the subject of nationalization and compensation, on which differences of opinion among countries and groups of countries have existed for a long time. So important are the issues involved here that it was felt necessary to attempt to deal with them in the Code of Conduct, in particular in the part relating to the treatment of transnational corporations.

381. The texts put forward in the course of the negotiations on the subject reflect the two basic positions regarding nationalization and compensation. To most delegations, the right of a State to nationalize foreign property in the territory of that State is an inalienable one which should be stated without qualification. Other delegations have taken the position that, although the right of States to nationalize foreign property is acknowledged, this right should be exercised in conformity with, and the procedure and amount of compensation should respect due process of law and national and international law and contractual agreements. In the view of these delegation, the modalities for the payment of compensation should refer also to the timeliness and transferability of the payment - a payment reflecting the equivalent value of the nationalized property.

382. However, delegations that oppose the imposition of qualifications along the foregoing lines maintain that concepts such as that nationalization should be "in the public interest" needed to be broadened so as to include national security and social interests. They consider that notions such as "just" or "adequate" compensation have a subjective element in them and should be replaced by the concept of appropriate compensation. The meaning of "due process of law", according to these delegations, is vague, since nationalization measures are not always subject to further legal procedures. Lastly, these delegations questioned the appropriateness of including limitations on the State's prerogative, such as references to non-discrimination, international law and contractual undertakings, since national laws, regulations and administrative practices normally cover these matters as well as the nature and modalities of compensation.

383. The competing versions of the paragraph on nationalization and compensation reflect the two basic positions on the subject. One states that adequate compensation should be paid, taking into account the laws and regulations of the nationalizing State and all the circumstances that that State may deem relevant, and specifying that any dispute concerning compensation would be settled under the domestic law of the nationalizing or expropriating State and by its courts. The other version makes references to international law, states that any nationalization or expropriation should be accompanied by the payment of "prompt, adequate and effective" compensation and enumerates elements to be taken into account in the computation of the compensation to be paid. The other versions contain compromise formulations, which try to avoid specificity on the principal issues dividing governments on this topic. These proposals embody a simple formula that recognizes two core principles: the sovereign right of the State to nationalize foreign-owned property and the duty of the State to pay compensation in that event.

(iv) Jurisdiction, dispute settlement and applicable law

384. Although transnational corporation are creatures of national law and hence subject to the law of one State or another in each phase of its operations, competing and conflicting claims to jurisdiction are often advanced by governments;

this is particularly the case where, as often happens, the impact of a corporation's activity transcends national boundaries. Frequently the home country of claims competence to extend its jurisdiction and exercise its authority by applying its laws to the activities of natural and juridical persons even when such activities take place outside its teritorial boundaries. Another important issue here is the extent to which the host country can protect and enforce its sovereignty, when the conduct of a transnational corporation operating within its jurisdiction violates its laws but not the laws of the home country, or vice versa. Examples of such conflicts are abundant in many areas of transnational activity, such as national trade regulations (export controls), antitrust legislations, disclosure provisions, enforcement of international sanctions, etc. Also relevant here is the whole issue of the enforcement abroad of judicial decisions and arbitral awards. Lastly, the question of the settlement of investment disputes is regarded as intimately connected with the sovereignty and jurisdiction of States.

385. In the Intergovernmental Working Group it was considered essential that the Code should deal with the subject of jurisdiction in one way or another. The proposed paragraphs on jurisdiction initially sought to cover this difficult and highly technical topic succinctly. For this reason, the possibility of eliminating the entire section was discussed, with some of the paragraphs being deleted and others being moved to other places within the Code. There was, however, no general agreement on that proposal, and the competing versions proposed by delegations, along with a compromise formulation, appear in square brackets in the draft Code.

386. The first paragraph under the heading "jurisdiction" would merely state the general principle that entities of transnational corporations are subject to the jurisdiction of the countries in which they operate. In order to avoid the implication that the Code endorses the view that concurrent jurisdiction over such entities by several countries is appropriate, other formulations have been proposed which clarify the point by their syntax or through additional qualifications. The presence of brackets in this case reflects a basic disagreement on the governing principle, rather than mere differences in formulation.

387. A second paragraph in this section would deal with disputes between States and transnational corporations. There was agreement that such disputes, if not amicably settled, are to be submitted to national or other appropriate authorities and that recourse to other methods of dispute settlement is possible. The exact relationship between these possibilities was not agreed upon and the three bracketed versions which were included in the final draft reflect the differing positions, along with some efforts at a compromise formulation.

388. A third paragraph would deal with the problem of choice of law and forum in private law contracts to which a transnational corporation is a party. It was suggested that the topic was outside the scope of the Code, as being solely one of private law, but it was held by some delegations that a reaffirmation of the principle of the autonomy of the parties and free choice of law and forum would be useful.

389. The last paragraph in this section would deal with conflicts of jurisdiction between States in exercising jurisdiction over a transnational corporation. It was generally agreed that States should adopt mutually acceptable principles and procedures for the avoidance and settlement of such conflicts, but there was no consensus on the precise formulation of that principle nor on the need to include a provision discouraging States from encroaching on the jurisdiction of other States.

(g) Aspects of the implementation of the Code

390. Throughout the negotiations on the Code there has been broad consensus that it should be an effective instrument. In order to secure this result, the part of the Code dealing with its implementation is to contain provisions calling for action at the national and international levels as well as establishing appropriate machinery and procedures of implementation.

391. An outstanding issue in this part of the Code is whether the international institutional machinery, that is, the Commission on Transnational Corporations, that will be responsible for the implementation of the Code should be entrusted with the function of providing clarification of the provisions of the Code in the light of actual situations in which the applicability and implications of the Code have been the subject of intergovernmental consultations. Most delegations favoured such a provision, arguing that it was essential to the effective application of the Code. A few delegations opposed it on the ground that it would be tantamount to granting quasi-judicial powers to the Commission, which would be inappropriate in a voluntary code.

392. A remaining unresolved issue concerns the role of non-governmental organizations as part of the implementation machinery. Whilst some delegations favoured emphasizing such a role for non-governmental organizations, others preferred a limitation with particular reference to the organizations that may submit material to the implementation body in connection with its annual discussions of matters related to the Code. Delegations placing emphasis on the role of non-governmental organizations have proposed that they should be mentioned explicitly as a potential source of material. Other delegations would prefer not to deal with this point in such an explicit way. Again, in connection with the mechanism of clarification, it was proposed by some delegations to limit requests for clarification to those emanating from governments. However, some other delegations considered that requests for clarification of the Code's provisions submitted directly by non-governmental organizations should be admissible.

E. Evaluation of codes of conduct

393. The practical impact of the various codes of conduct for transnational corporations referred to above cannot be definitively assessed at present since the codification movement is a recent phenomenon. Indeed, as noted earlier, some of the instruments have not yet been promulgated. The only code which has yielded a significant body of experience as regards implementation is the OECD Guidelines. Nevertheless, there has been no lack of appraisal of the likely effect of these instruments. The code movement has attracted considerable academic attention in recent years, and many commentators have, in particular, discussed the effect of voluntary codes of conduct. It may be useful to summarize these views.

394. Baade challenges the popular assumption that "a voluntary" code has no legal effect. 90/ He contends that an international code of conduct, such as the OECD Guidelines, may create valid and binding legal obligations, notwithstanding explicit declarations or disclaimers characterizing the instrument as "voluntary" or "not legally enforceable". The legal effect of an international code of conduct, like that of a unilateral declaration by a State, is ultimately referable to the intent of the parties, to be ascertained by interpreting the specific provisions of the code. Good faith and the intention to create legal obligations,

rather than the form of the instrument, are the major determinants of the legal character and effects of the provisions of a code. For example, to the extent that a provision in a voluntary code is a formal and unequivocal affirmation of a well-settled principle of international law, it may be legitimately inferred that the parties to such a code have manifested an intention to be bound by the principle in question. The result of this eclectic or pragmatic approach to the legal effect of specific provisions is that a code may have a "zebra" legal effect. Some of its provisions may be legally binding, while others may fall short of that status.

395. Baade concedes that the mere adoption of a voluntary code of conduct does not invest such an instrument with the status of international law. However, he maintains that such an instrument is "not inherently incapable of rising to that level through State practice, especially through host and home country participation in intergovernmental follow-up proceedings". He stresses that the express characterization of a code as voluntary does not preclude its incorporation into the national laws of States adopting the code, or form the ultimate transformation of the substantive provisions of the code into treaties or customary international law. Since such instruments at least constitute declarations of international policy, they legitimize the transformation of the code's provisions into domestic law. Finally, Baade argues that voluntary codes "have legal effects as agreed on data and criteria of international public policy and legal terminology" 91/ which may find recognition both in the judicial enunciation of public policy in domestic courts and in the interpretation of relevant treaties and similar instruments.

396. Horn 92/ draws a distinction between the legal character of codes of conduct and their effectiveness. Like Baade, he stresses that an instrument that is not a binding international agreement can be implemented and recognized if backed by adequate follow-up procedures, such as the OECD procedures, and it may have legal effect both in public international law and in business law. The effectiveness of a code of conduct depends on the political commitment of States parties to the undertakings of the code and not on the juridical quality of the instrument. Horn is mucn more sanguine about the effectiveness of the OECD procedures than Pursey, a trade unionist. Pursey 93/ claims that the empirical evidence of corporate compliance with the OECD Guidelines does not sustain the much-canvased theory that voluntary codes "seem more likely to encourage multinational companies and governments to adopt policies and regulations which would cause multinational enterprises to continue to develop as socially responsible institutions to the advantage of world economic growth". 94/ In his view, the formidable problems posed by the operations of these corporations in such fields as seurity of employment, tax avoidance or capital movements, justify the adoption of tougher regulatory measures than undertakings of goodwill.

397. Fatouros 95/ is also skeptical about the claim that transnational corporations will comply voluntarily with codes of conduct without any governmental constraint. "Even if a code were to include nothing but formulations accepted as reflecting desirable business practices, it is still highly probable that some transnational enterprises might occasionally find it profitable to disregard the code, in spite of the presumed disapproval of their more ethical brethren".

398. As to the juridical character and effect of codes of conduct, Fatouros's central thesis is that proponents of mandatory and of nonmandatory codes of conduct both err in attributing too much importance to legal form. He contends that it is

not particularly helpful to consider the legal effect of a code of conduct, an international instrument, on the basis of criteria that are meaningful in a particular national system. For example, the proposition that a legal instrument is binding if non-compliance with it will engage a State's responsibility has little value since it presupposes the existence of centralized and well-established law enforcement mechanisms in the international arena. He accordingly suggests a more pragmatic test of the code's effectiveness, namely: does it or does it not impose limitations on possible courses of action for the governmental authority concerned, as compared to the choices available in the absence of the instrument? "If, after an instrument has been adopted, the consequences that follow the exercise of an option are the same as those that would have resulted before the instrument's adoption, the legal effect of the instrument is nil; the behaviour of the party has been unaffected. When, however, any courses of action open before the adoption of the instrument are now closed or have been made either more attractive or more difficult after the instrument's adoption, then the instrument has some practical legal effect. It influences the conduct of the party concerned in the desired direction." 96/

399. Vagts 97/ assesses the likely effect of voluntary codes of conduct on host countries, home countries and transnational corporations. In his view, host countries would be able to claim that their policies and measures relating to the corporations are unquestionably legitimate if these are consistent with the codes of conduct. They would accordingly resist any argument by home countries that such policies and measures constitute a violation of international law or some other universally applicable international norms. Codes of conduct might also reinforce the negotiating position of host countries vis-à-vis transnational corporations, since their provisions are likely to be invoked by other host governments in similar negotiations. He adds that codes of conduct would provide host government officials with a readily available body of information about emerging international standards in this area that would be educative.

400. Vagts argues that codes of conduct could also place some limitations on home governments' freedom of manoeuvre, despite the voluntary character of the instruments. Their ability to question the legitimacy of action taken by a host government would be undermined if such action is based on the provisions of the guidelines. Conversely, some home countries may be able to invoke the provisions of the code in imposing restraints upon the activities of transnational corporations.

401. Relying on the OECD experience, Vagts points out that considerable moral pressure can be brought to bear on a transnational corporation whose behaviour is characterized by the host State as not conforming to the norms stipulated in the code, particularly, if the corporation lacks the active support of its home country. Vagts indicates a number of possible reasons for voluntary compliance by transnational corporations. They had hoped that "a certain degree of stability and security could be obtained for the price of accepting somewhat clearer limitations; they hoped that being able to point to such provisions could help them deflect pressures for nationalization or contract renegotiation. They know that they would find demands to live up to the new standards hard to resist but felt that they, on the whole, were in compliance (whatever the defaults of their competitor might be)". 98/

402. It remains to be seen whether these considerations will actually induce voluntary compliance without governmental constraints.

403. Vagts points out that in the case of the EEC Code of Conduct for companies operating in South Africa, there have been instances where a home government has applied some pressure to ensure compliance with the Code despite its non-mandatory character. However, he makes the significant point that, while a European-based transnational corporation must manoeuvre carefully between the EEC Code and South African law, "it is difficult to see how a firm could encounter serious difficulties when it complied with South African laws." 99/ Vagts concludes that transnational corporations cannot entirely escape new requirements as to their actions, in particular the new requirements that they must report, explain and consult. "There is still much flexibility and porosity in the system, however, and with some graceful footwork direct conflicts between commands can be avoided". 100/

Notes

1/ Controls and Impediments Affecting Inward Direct Investment in OECD Member Countries, OECD, Paris 1982, p 8.

2/ Wall Street Journal, 30 October 1980.

3/ Foreign banks and French banks under foreign control were, however, exempted from the nationalization programme that, with this exception, covered French banks and certain large industrial companies.

4/ Japan, where only 2.8 per cent of domestic sales is accounted for by foreign-controlled enterprises, is the only OECD country with a lower figure than the United States; see Financial Times, 27 March 1981.

5/ See "Foreigners' Investment in US Stirs a Warning", New York Times, 8 August 1982.

6/ See "How Japan Manages its Declining Industries", Fortune, 10 January 1983.

7/ According to the publication of the United States Department of Commerce of October 1981 publication, The Use of Investment Incentives and Performance Requirements by Foreign Governments, of 15,603 United States-owned affiliates in developed countries, only 6 per cent were subjected to trade-related performance requirements compared to 29 per cent of 7,627 United States-owned affiliates in developing countries.

8/ Ibid. , p. 9

9/ See United States Ninety-seventh Congress, Senate Committee on Foreign Relations, Subcommittee on International Economic Policy, Hearings on United States Policy Toward International Investment, Washington, Government Printing Office, 1982.

10/ Statement of Motor Vehicle Manufacturers Association of the United States Before the Senate Subcommittee on International Economic Policy, Hearings, ibid, p. 593.

11/ "House Passes US Auto Content Bill", New York Times, 16 December 1982.

12/ The Economist, 10 July 1982

13/ "Relationship of incentives and disincentives to international investment decisions", Response of Business Industry Advisory Committee on International Investment and Multinational Enterprises to the OECD Working Group on International Investment Policies, New York, April 1981. Some examples of the liberal incentive packages offered by OECD countries are cited on pp. 21-22 of this booklet.

14/ According to the publication of the United States Department of Commerce cited earlier, the linkage between investment incentives and performance requirements for United States-owned affiliates was as follows:

Item	Developed countries	Developing countries
1. Number of affiliates responding	15,603	7,627
2. Percentage subject to performance requirements	6	29
3. Percentage receiving investment incentives	25	27

15/ "Relationship of incentives and disincentives to international investment decisions", op. cit.

16/ For example, even in the United States, although the nominal level of corporate tax is 46 per cent, the effective rate is currently estimated to be 26 per cent only; with the changes introduced in 1981, the effective rate is further expected to decline to 14 per cent by 1990.

17/ For a fuller discussion of this issue, see the preceding section of this chapter.

18/ International Investment and Multinational Enterprises: Mid-term Report on the 1976 Declaration and Decisions, OECD, Paris, 1982.

19/ For the policies of OECD countries on "national treatment", see the latest available survey in the OECD publication, "National Treatment of Foreign Controlled Enterprises Established in OECD Member Countries", Paris, 1978.

20/ Foreign Investment in the United States. A Summary of Federal Laws bearing on Foreign Investment in the United States. Department of Treasury, September 1979.

21/ According to one argument, a 1 per cent difference in interest rate could translate into as much as a 10 per cent difference in cost in the case of high value equipment and, therefore, differentials of the order of 2 to 4 per cent can decisively tilt the competitive advantage. Business Week, 2 November 1981, p. 49.

22/ Overseas Private Investment Corporation, 1981 Annual Report, pp. 49-50.

23/ International Investment and Multinational Enterprises: Recent International Direct Investment Trends, OECD, Paris, 1981.

24/ Ibid., pp. 17-18.

25/ New York Times, 6 March 1981.

26/ The study was carried out under the auspices of the International Institute of Management, Berlin, in 1978-1979 by members of research institutions in Belgium, France, Federal Republic of Germany, Netherlands, Sweden, United Kingdom and United States. See Denis C. Mueller, editor, The Determinants and Effects of Mergers: an International Comparison, Oelgeschlager, Gunn and Hain, Cambridge, Mass., 1980.

27/ See Manual for the Negotiation of Tax Treaties between Developed and Developing Countries, United Nations publication, Sales No. E.79.XVI.3.

28/ This policy is laid down in the Code of Liberalisation of Capital Movements (Paris, OECD, 1982) and the Code of Liberalization of Current Invisible Operations (Paris, OECD, 1973) and has also informed the "Declaration on International Investment and Multinational Enterprises", contained in OECD, International Investment and Multinational Enterprises: Revised Edition (Paris, 1979). Canada does not adhere to the capital liberalization Code.

29/ Revised Edition, op. cit.

30/ See OECD, National Treatment for Foreign Controlled Enterprises in OECD Member Countries (Paris, 1978). This survey will be updated in the course of 1983.

31/ The clarifications are reproduced in OECD, Mid-term Report on the 1976 Declaration and Decisions, op cit. Annex V.

32/ For example, Yugoslavia has concluded treaties with France (1975), the Netherlands (1977), Egypt (1977) and Sweden (1978). Romania has concluded treaties with the United Kingdom (1976), Egypt (1977), Austria (1977), France (1975) and Italy (1979). China has concluded a treaty with Sweden (1982), while treaties with the United States and other countries are reported to be under negotiation. Sri Lanka has concluded recently treaties with Japan and the United Kingdom among developed countries and with Singapore and the Republic of Korea among developing countries. France has concluded 13 treaties with developing countries since 1974, whereas it had only one such treaty (with Tunisia) before. All these treaties, as well as the treaties signed by Yugoslavia and Romania (except that with Italy) and most of the treaties signed by the Netherlands and the United Kingdom, as well as many other recent treaties make provision for arbitration by ICSID. The United States has recently concluded a treaty with Egypt, while treaties with Panama and China are reported to be under negotiation.

33/ Raymond Vernon, "Codes on transnationals: ingredients for an effective international regime" (Boston, Harvard Business School, 1982), mimeo, p. 10, describes these treaties as "patently unbalanced" and he adds (p. 11) "history suggests that the treaties are too unbalanced to provide the basis for durable regime".

34/ Overseas Private Investment Corporation, 1981 Annual Report, supra.

35/ See OECD, Investing in Developing Countries (Paris, 1983), p. 27.

36/ Finance and Development, A quarterly publication of the International Monetary Fund and the World Bank, Washington, December 1982.

37/ See, OECD, International Direct Investment: Policies, Procedures and Practices in OECD Member Countries (Paris, 1979).

38/ In a number of countries, investment guarantee programmes are managed by export-promotion agencies.

39/ See Export Administration Annual Report, fiscal year 1981 (Washington, Department of Commerce, 1982).

40/ OECD, Recent International Direct Investment Trends, op cit.

41/ Overseas Private Investment Corporation, 1981 Annual Report.

42/ Employment effects of multinational enterprises in developing countries, International Labour Office, Geneva, 1982.

43/ An additional concern for trade unions is that foreign direct investment erodes their bargaining strength, among other reasons because the trade-union movement is typically not as tightly organized as the operations of transnational corporations.

44/ For a review of the policies in both Sweden and the United States, see C. Fred Bergsten, Thomas Horst and Theodore H. Moran, American Multinationals and American Interest (Washington, The Brookings Institution, 1978).

45/ See, Ingrid Scheibe-Lange, "The need for further work," The CTC Reporter, 14 (Winter 1982), United Nations publication (forthcoming). The issue of information disclosure has also arisen in the context of the OECD Guidelines and it is at the source of the "Proposal for a Council Directive on procedures for informing and consulting the employees of undertakings with complex structures, in particular transnational undertakings" (known as the "Vredeling Proposal") of the European Community.

46/ See, e.g., Stephen K. Pursey, "Codes for transnational corporations: the trade union experience," The CTC Reporter, 12 (Summer 1982), United Nations publication, Sales No. E.82.II.A.14, pp. 14-16.

47/ To quote the AFL-CIO News, 28 (8 January 1983), p. 10: "Exports of jobs in services have already begun through the runaway shop, the runaway ship, and the runaway firm and computer service."

48/ Especially items 806.30 and 807 of the United States Tariff Schedule. See, e.g., Richard Prosten and Raymond MacDonald, "A union view of the multinational problem," in Benjamin Martin and Everett M. Kassalow, Labor Relations in Advanced Industrial Societies: Issues and Problems (New York, Carnegie Endowment for International Peace, 1980), pp. 1-13.

49/ See the discussion on performance requirements in the section on host developed countries.

50/ See OECD, Revised Edition, op. cit. See in this context also OECD, Mid-term Report, op. cit.

51/ See OECD, Investment Incentives and Disincentives in OECD Member Countries and the International Investment Process (Paris, 1983).

52/ Performance requirements and incentives have also been examined by a "Task Force on Private Foreign Investment" of the Development Committee of the IMF/IBRD. On the recommendation of the report of this Task Force, the World Bank initiated a major study of incentives and performance requirements the results of which are to become available during 1983.

53/ Still, tax havens present a serious challenge to tax authorities. According to a report by the Special Counsel for International Taxation of the United States Internal Revenue Service, the "legal and illegal use of tax havens appears to be on the increase ... The data support the perception that acitivity through tax haven entities has increased, and that tax haven entities are increasingly diverting capital away from entities formed in economically advanced countries that have highly developed systems of taxation." Gordon, "Tax havens," op. cit., pp. 3-4.

54/ See United States, Internal Revenue Service, "Multinational companies (MNCs): tax avoidance and/or evasion schemes and available methods to curb abuse" 18th Technical Conference of the Centro Interamericano de Administradores Tributarios, March 1977, mimeo, p. 22.

55/ Ibid., p. 2.

56/ Ibid., p. 1.

57/ Ibid., p. 2. "Attempts by the Service to secure information involving international transactions indicate that sophisticated taxpayers are well aware of the audit problems and time involved for an agent to trace a transaction, find a comparable transaction, secure books and records, deal with the peculiarities of foreign law and document the substance of a transaction. Moreover, some taxpayers are taking advantage of these complexities to thwart effective investigations by use of passive resistance or not co-operating during the audit."

58/ See United States, Comptroller General, "Report to the Chairman, House Committee on Ways and Means: IRS could better protect U.S. tax interests in determining the income of multinational corporations" (Washington, 1981), p. i.

59/ Ibid., p. ii.

60/ Ibid.

61/ The Internal Revenue Service has published guidelines and procedures which implement the simultaneous examination programmes with its five treaty partners (see Internal Revenue Manual, Exhibit 42 (10) 0-14 through 18). These guidelines similarly provide for the common objective of developing and improving procedures for exchanging information each country can use in examining

transnational corporations, exchange information on new patterns or techniques of tax avoidance and determine correct tax liabilities of related taxpayers engaged in intra-company transactions.

62/ For a review of these and the following issues, see Douglas E. Rosenthal and William M. Knighton, National Laws and International Commerce: The Problem of Extraterritoriality, (London, Routledge and Kegan Paul, 1982).

63/ This practice is not, however, limited to the United States. The Vredeling Proposal, if adopted by the Council of Ministers of the European Community, may possibly also have extraterritorial disclosure effects. See Detlev F. Vagts, "A turnabout in extraterritoriality", American Journal of International Law, 76 (July 1982), pp. 591-594.

64/ See, for instance, the experience of the United Kingdom, as described by A.V. Lowe, "Blocking extraterritorial jurisdiction: the British Protection of Trading Interests Act, 1980", American Journal of International Law, 75 (April 1981), pp. 257-282. Such blocking legislation exists also in the United States. For instance, para. 369.2(d) of the United States Export Administration Regulations prohibits United States corporations to provide certain data to members of the League of Arab States which participate in the League's boycott of Israel.

65/ Potentially, conflicts may also arise from the insistence of home countries that foreign affiliates located in southern African operate in a manner not necessarily condoned by the host government.

66/ For the United States, see Title I, Public Law No. 95-213 of 19 December 1977, 95th Congress, First Session, 1977; for Sweden, the relevant statute is an amendment to the Swedish Penal Code. It should be noted, however, that the anti-corruption laws of a few other countries, including the Netherlands and Sweden, apply to illicit payments to non-public officials if they are illegal in the State in which they are made.

67/ See David R. Slad, "Foreign corrupt payments: enforcing a multinational agreement", Harvard International Law Journal, 22 (Winter 1981), pp. 117-155.

68/ See ibid. and United Nations "Report of the Committee on an International Agreement of Illicit Payments on its first and second sessions" (E/1979/104).

69/ In re Uranium Antitrust Litigation, 617 F 2d, 1248 (7th Cir. 1980).

70/ D. E. Rosenthal and W.M. Knighton, National Laws and International Commerce: The Problem of Extraterritoriality, Royal Institute of International Affairs, Chatham House, 1982, p. 18.

71/ Ibid., p. 34.

72/ Actually "The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices" approved by the United Nations Conference on Restrictive Business Practices (Geneva, April 1980), under the auspices of UNCTAD, and adopted by the General Assembly in its resolution 35/63 of 5 December 1980.

73/ OECD, Council Recommendation Concerning Co-operation Between Member Countries on Restrictive Business Practices Affecting International Trade, (79), 154 (Final), Paris, 5 October 1979.

74/ OECD, "Guidelines", op.cit., p. 15.

75/ See, for instance, Blanpain, R., "The OECD Guidelines for Multinationals and Labour Relations" in Legal Problems of Codes of Conduct for Multinational Enterprises, Kluwer, Deventer, The Netherlands, 1980.

76/ See for instance "The Vredeling proposal on worker consultation", European Report, No. 782, 10 June 1981.

77/ See Blanpain, "The OECD Guidelines for Multinationals ..." op. cit.

78/ Vagts, D.F., "Multinational Corporations and International Guidelines", Common Market Law Review, No. 18, 1981, pp. 463-474.

79/ Report of the Intergovernmental Working Group on a Code of Conduct on its fifteenth, sixteenth and seventeenth sessions, E/C.10/1982/6, annex.

80/ Ibid.

81/ Working Paper No. 10 of 7 November 1979 of the Intergovernmental Working Group on a Code of Conduct.

82/ Working Paper No. 21 of 8 June 1981 of the Intergovernmental Working Group to be issued in E/C.10/1983/S-I/4.

83/ Text in Document E/C.10/1983/S/2, para 24. For a summary of the statement, see Official Records of the Economic and Social Council, 1982, Supplement No. 8, (E/1982/18), para. 34.

84/ Working Paper No. 12 of 26 March 1980 of the Intergovernmental Working Group on a code of Conduct. to be issued in E/C.10/1983/S-I/3.

85/ Working Paper No. 16 of 11 February 1981 of the Intergovernmental Working Group on a Code of Conduct, reproduced in document E/C.10/79, annex II.

86/ See Working Paper No. 21 of 8 June 1981, op. cit.

87/ Cited in document E/C.10/1983/S/2, para. 42.

88/ International Investment and Multinational Enterprises: Declaration by the Governments of OECD Member Countries on International Investment and Multinational Enterprises, National Treatment, International Investment Incentives and Disincentives, Consultation Procedures, OECD, Paris, 1976.

89/ See Rodriguez-Mendoza, M., " Reflections on the Code: The Negotiations on the United Nations Code of Conduct on Transnational Corporations: some issues", The CTC Reporter No 12, 1982, United Nations publication, Sales No. E.82.II.A.14.

90/ Baade, H. W., "The Legal effects of Codes of Conduct for Multinational Enterprises" in Legal Problems of Codes of Conduct for Multinational Enterprises, op. cit., pp. 4-38.

91/ Ibid., pp. 37 and 38.

92/ Horn, N., "Codes of conduct for multinational enterprises and transnational Lex Mercatoria", ibid., pp. 45-81.

93/ Pursey, S.K., "The trade union view on implementation of codes of conduct", ibid., pp. 277-293.

94/ Ibid., p. 283.

95/ Fatouros, A. A. "On the Implementation of International Codes of Conduct: An Analysis of Future Experiences", American University Law Review, vol. 30, summer 1981, No. 4, pp. 941-972.

96/ Ibid., p. 952.

97/ Vagts, D.F. "Multinational Corporations and International Guidelines," op. cit.

98/ Ibid., pp. 471-472.

99/ Ibid., p. 472.

100/ Ibid., p. 474.

Chapter IV

TRANSNATIONAL CORPORATIONS AND DEVELOPMENT: INDUSTRIALIZATION, TRADE, AND TECHNOLOGY TRANSFER

A. Introduction

404. Chapters IV and V analyze the role of transnational corporations in the development process, their impact on several sectors of the economy, and their direct and indirect contribution to the objectives of national and international development to which the international community has subscribed.

405. In order to achieve the objectives of development, several specific quantitative and qualitative targets have been adopted by the international community. The International Development Strategy for the Third United Nations Development Decade adopted by the General Assembly in resolution 35/56 of 5 December 1980 indicated a target of accelerated GDP growth by the developing countries. Accelerated industrialization is singled out for special emphasis both by the Strategy and by the Lima Declaration and Plan of Action on Industrial Development and Co-operation. In addition to the quantitative target, the Lima Plan envisages a balanced, integrated type of industrial development in which natural resources, agriculture and heavy industries are linked together and mobilized for the satisfation of the basic needs of the population. The Strategy also emphasizes the need for self-reliance, both on a national and on a collective basis.

406. For the purpose of assessing the role of the transnational corporations in the development process and their contribution to the development objectives, certain methodological difficulties arise. First, there is the problem of accounting not only for direct, but also for indirect effects. Second, there is the difficult question of what would have been the alternative to the activity of these corporations. Third, there is the problem of attribution: certain virtues and certain defects may be the result of their activity, or they may be the result of government policy to which transnational corporations respond. The following review of the latest available evidence attempts to take into account these difficulties. The areas covered in Chapter IV are industrialization, trade and technology transfer, while Chapter V deals with energy, primary commodities and food, the environment, and the social and cultural aspects of development. In each of these areas, the main policy issues are also discussed.

B. Trends in the industrial performance of developing countries

1. Overview of performance of developing countries in industrialized and manufactured exports

407. Sections B through F of this chapter deal with the role of transnational corporations in the industrialization of the developing countries. The contribution of such corporations to industrial growth is considered in a number of areas: in the direct establishment and/or operation of industrial facilities, in participation in joint ventures, in the licensing of domestic enterprises and other forms of "technology transfer", and in the promotion of manufactured exports. A related issue that arises is the role that they can play in the future

industrialization of the developing countries and what policies may be appropriate for this purpose.

408. During the 1970s the developing countries as a whole achieved a relatively strong growth performance in manufacturing industry. In these countries, real GDP of the sector increased by 88 per cent during the decade, compared to a 35 per cent growth in the case of the developed market economies, and their share in the manufacturing output of world market economies grew from roughly 11 to 15 per cent. The growth of manufacturing output was confined mainly to the middle-income developing countries, and was especially strong in a group of newly industrializing countries, where this growth was led by an upsurge in exports of manufactured goods. Annex Tables IV.1 and IV.2 provide data concerning the manufacturing activities of 19 developing countries selected by reason of the relative size and exports of their manufacturing sector. These countries account for 75 per cent of the total manufacturing GDP of all developing countries and 62 per cent of their exports. As their aggregate growth in the 1970s was slightly above that of developing countries as a whole, they can be held to be mainly responsible for the performance of the group.

409. Associated with this was an impressive performance by the developing countries in world trade in manufactures. The manufactured exports of non-oil exporting developing countries grew from $23 billion to $95 billion between 1973 and 1980 and as a consequence their share in the total merchandise exports of this group increased from 34 to 39 per cent and their share in world exports of manufactures grew from 6.7 to 8.7 per cent. 1/

410. From the sectoral point of view, the most dynamic industries accounting for the industrial growth of developing countries as a whole in recent years have been basic metals, food, beverages and tobacco, printing, publishing and paper products, heavy manufacturing, and chemicals including refined petroleum products. 2/ However, their manufactured exports are dominated by textiles and clothing, while their exports of engineering products and other consumer goods also increased at a high rate. 3/ Thus their export performance has been strongest in the case of labour-intensive products made with the use of standardized, relatively mature technologies; and in the case of labour-intensive components of high-technology products in accordance with their international comparative advantage.

411. In the latter part of the 1970s, this performance gave rise to considerable optimism about the prospects of developing countries achieving the Lima target of securing a substantially larger share of world industrial production by the year 2000 and the redeployment of industry from the developed to the developing countries in accordance with their international comparative advantage, and, more generally, the objective of accelerated industrialization set in the International Development Strategy for the Third United Nations Development Decade. However, since the turn of the decade the adverse consequences of the world recession, including lagging demand and rising protectionism in the developed market economies, and a sharp decline in the rate of growth of international trade, have dampened these prospects considerably. Between 1975 and 1980 the developing countries' share in total world manufacturing output (i.e. including the socialist countries) increased from 8.0 to 8.5 per cent only. 4/ Other shortcomings of their industrial performance should also be noted: the Lima Plan of Action calls for an equitable spread of industrial growth among the developing countries, with special attention being paid to the needs of the least developed and the most seriously affected countries; accelerated industrialization, however, has been confined to a

relatively small group of the newly industrializing countries. Capital goods production in developing countries is still very small, amounting to a mere 4 per cent of world output in the machinery and transport equipment categories in 1978. 5/ Among those countries that did achieve substantial industrial growth, the pattern of industrialization may not necessarily conform to that called for in the Lima Plan of Action, i.e., balanced integrated development based on indigenous resources and oriented towards the satisfaction of basic needs of the population. Nonetheless, it is important to attempt to assess the contribution of transnational corporations to the progress that was achieved, which should provide a basis for considering the future role of these corporations in the industrialization of the developing countries.

2. Assessment of the contribution of transnational corporations

412. For the purpose of assessing the contribution of transnational corporations to this performance, the first step is to assemble the empirical evidence of the extent of their direct involvement in the manufacturing industries and exports of the developing countries. The same countries that account for the bulk of manufacturing output and industrial growth in the developing countries are also, by and large, the largest recipients of foreign direct investment in manufacturing industry in the developing world (Table IV.1). Investment by transnational corporations has been attracted by the opportunities created by rapid industrialization and has also made a contribution to that process. However, the actual extent of the involvement of these corporations in the manufacturing sector varies widely from country to country (Table IV.2). Their direct share in the manufacturing sector can be measured by the percentage share of foreign-affiliated enterprises in total sales, employment, fixed assets, or equity. The share is generally highest in the industrialized or semi-industrialized Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru), where it varies between one-third and one-half for most of the indicators, and in Malaysia and Singapore among the Asian countries. A high level of industrialization and a large foreign presence do not always go together: in the Republic of Korea, which experienced one of the highest rates of growth of industrial output among developing countries in the 1970s, transnational corporations account for only 10 per cent of employment and 23 per cent of equity in the manufacturing sector; and in India, which ranks fourth in the developing world in the absolute size of its manufacturing GDP, transnational corporations account for only 13 per cent of manufacturing sales.

413. A similar picture emerges from examining the share of such corporations in the manufacturing exports of the developing countries (Table IV.3). Their share in manufactured exports varies from as high as over 90 per cent for Singapore, to between one-third and one-half for the leading Latin American countries and the Republic of Korea, to 10 per cent or less in Hong Kong and India. The extent of their involvement in rapid industrialization appears to be greatly influenced by the specific economic circumstances in each developing country and the nature of host government policies.

414. In attempting to identify the actual extent of the contribution of transnational corporations to the industrialization of developing countries, one has to consider the "counterfactual" situation, i.e., what would have been the situation in the absence of transnational corporations? What policies would the governments of developing countries have pursued, and would industrial growth have been higher, the same, or lower? In addition, one would have to inquire as to the

Table IV.1. Selected developing countries: stock of foreign direct investment in manufacturing

(Millions of dollars)

Country	Early 1970s	Late 1970s	Average Annual change
Brazil	2 802	13 005	1 299
Indonesia	1 622	4 202	516
Mexico	2 377	3 868	373
Singapore	665	1 773	122
India	1 261	1 238	73
Nigeria	575	873	60
Republic of Korea	88	737	130
Philippines	46	716	112
Colombia	348	572	37
Hong Kong	133	434	43
Malaysia	137	433	49
Peru	310	350	7
Thailand	68	198	16
Ecuador	10	97	15
Morocco	9	92	21
Venezuela	492	84	50

Sources: Brazil, 1972 and 1980, from Banco Central do Brazil, Boleim do Banco Central, 1980. Indonesia, 1971 and 1977, from Bank of Indonesia, Indonesia Financial Statistics, (various issues). Mexico, 1972 and 1976, from information supplied by Subdirectión de investigación Economic y Bancaria, Cuenta del Exterio. Singapore, 1972 and 1977, from Economic Development Board, Annual Report 1977-1978. India, 1971 and 1974, from Reserve Bank of India, Monthly Bulletin (various issues). Nigeria, 1971 and 1976, from Central Bank of Nigeria, Economic and Financial Review (various issues). Reublic of Korea, 1973 and 1978, from information supplied by Economic Planning Board. Philippines, 1972 and 1978, from Business Day, 16 April 1979. Colombia, 1972 and 1978, from Banco de la Republic, Annual Report, 1972 and 1978. Hong Kong, 1971 and 1978, from information supplied by Trade, Industry and Commerce Department. Malaysia, 1972 and 1977, from information supplied by Federal Industrial Development Authority for Malaysia. Peru, 1971 and 1977, from information supplied by Ministerio de Economía y Finanzas. Thailand, 1969 and 1977, from Bank of Thailand, Monthly Bulletin, various issues. Ecuador, 1971 and 1977, from Commissión Económica para América Latina Unidad Conjunta CEPAL/CET de Empresas Transnacionales, "La programación andina y sus resultados en El Ecuador: el papel de las empresas transnacionales" (E/CEPAL/R.200, 3 December 1979). Morocco, 1973 and 1977, from Banque Marocaine du Commerce Exterieur, Revue bimensuelle d'Informations, December 1978. Venezuela, Superintendencia de Inverciones Extranjeras, Memoria, 1978.

Note: Countries are ranked in order of the magnitude of the stock of foreign direct investment in manufacturing in the late 1970s.

Table IV.2. Share of foreign-owned and/or affiliated enterprises in manufacturing industry in selected developing countries

(Percentage)

Country	Employment a/	Gross value of production or sales	Fixed assets	Equity
Argentina	10-12 (1970)	31 (1972)		37 (1970)
Brazil	30 (1977)	44 (1977) b/	33 (1977) b/	31 (1977) b/
Chile		25 (1978) c/		
Colombia	28 (1970)	43 (1974) d/		
India	13 (1977)	13 (1975)		
Kenya	30-35 (1975)			
Rep. of Korea	10 (1978) e/	11 (1975) f/		23 (1978)
Malaysia g/	33 (1970)	44 (1978)	49 (1972)	41 (1972)
	34 (1978)		38 (1978)	38 (1976)
Mexico h/	21 (1970)	39 (1970)	34 (1970)	
Peru i/		40 (1971)		48 (1973)
		32 (1974)		34 (1975)
Philippines	7 (1970)			
Singapore j/	58 (1978)	83 (1978)		

a/ Except for the Republic of Korea and Singapore, data from International Labour Organization, Employnment Effects of Multinatioinal Enterprises in Developing Countries, Geneva, 1981, table II.3, p.27.

b/ J. Mooney and Newfarmer, "State Enterprise and Private Sector Development in Brazil", report prepared for the UNCTC, 1981.

c/ Eugenio Lahera, Presencia y Participación de las Empresas Transnacionales en la Economía Chilena, Joint CEPAL/CTC Unit, p. 91.

d/ Michael Mortimore and Eduardo Gana, "Foreign Participation in Colomiban Development: The Role of TNCs", Division of Economic Development of the United Nations Economic Commission for Latin America (CEPAL), Joint CEPAL/CTC Unit, Working Paper No. 14, June 1979, p.37

e/ Bohn-Young Koo, "Status and Changing Froms of Foreign Investment in Korea", OECD Development Centre, (mimeo) January 1982.

f/ Larry Westphal, Yung Rhee, Gary Pursell, Foreign Factors in Korea's Industrialisation, in Changsoo Lee (ed.), Modernisation of Korea: Impact of the West, East Asia Studies Center, University of Southern California, 1981.

g/ Tan Siew Ee and M. Kulasingam, "New Forms of International Investment: The Malaysian Experience", Paris OECD Development Center, March 1982, Table 8, p. 31; Table 6, p. 28; and Table 5, p. 24. The figure for 1978 in column 2 refers to value added.

h/ Fernando Fajnzylber and Trinidad Martínez Tarragó, Las Empresas Transnacionales. Fondo de Cultura Económica, 1976, p. 151.

i/ Fernando González Vigil, Capital Extranjero y Transnacionales en la Industria Peruana ILET - Centre de Investigación y Capacitión y Editorial Horizonte, Lima 1982, Table 4.1, p. 157; and Table 3.18, p. 136.

j/ Pang Eng Fong, "Foreign Direct Investment in Singapore: Preliminary Report", OECD Development Centre (mimeo) 1981, Table 3.

Table IV.3. Selected developing countries: Share of transnational corporations in exports of manufactures, various years

(Percentage)

Country	TNC share	Year
Argentina	over 30 a/	1969
Brazil	43 a/	1969
Colombia	over 30 a/	1970
Hong Kong	10 a/	1972
India	5	1970
Republic of Korea	27 b/	1978
Mexico	34 c/	1974
Pakistan	under 10 d/	1975
Singapore	92 e/	1978

Sources:

a/ Deepak Nayyar, "Transnational Corporations and Manufactured Exports from Poor Countries", Economic Journal, 88 (March 1978).

b/ From data in Bohn-Young Koo, "Status and Changing Forms of Foreign Investment in Korea." Paris: OECD Development Centre (mimeo) 1982, Appendix B.

c/ F. Jenkins, "The Export Performance of Multinational Corporations in Mexican Industry", Journal of Development Studies, 1979.

d/ UNCTAD, Trade and Development Report, 1982, Volume II (table 41, p.124).

e/ From data in Pang Eng Fong, "Foreign Direct Investment in Singapore: Preliminary Report", OECD Development Centre (mimeo) 1981, table 3.

cause and the effect, i.e., how far were transnational corporations merely attracted to rapidly expanding domestic markets and favourable conditions for export-based manufacturing, which might have materialized in any case? And how far did they make a significant incremental contribution to industrial growth in the form of equity capital, technology, and access to export markets, which might not have been provided by domestic enterprises? These difficulties of attribution make it necessary to evaluate the contribution of transnational corporations on a case by case basis and, for this purpose, the forms of their involvement, the industries concerned, and the experience of individual countries have to be examined closely.

415. The passages which follow attempt to evaluate the contribution made by transnational corporations through three forms of activity: foreign direct investment itself, their involvement in manufacturing exports, and their role in technology transfer transactions. The latter two forms are considered both as they are associated with foreign direct investment (transactions between transnational corporations and wholly-or majority-owned affiliates) and as they arise in relations between transnational corporations and domestic enterprises in the developing countries. The examination is preceded by a brief discussion of the strategies of the corporations and the reasons for their involvement in the manufacturing industries of developing countries.

C. Foreign direct investment and industrial performance

1. Corporate strategies

416. The motives for foreign direct investment by a transnational corporation may be discussed under two headings: investment in import-substituting industries, where the production is intended primarily for the domestic market of the host country; and investment in export-oriented industry, where the production is intended primarily for third markets or for the market of the corporation's home country. From the point of view of a host developing country, the two forms of investment correspond to the host country's motives for attracting the participation of transnational corporations in import-substituting and export-oriented industrialization.

417. Investment in import-substituting industries, which has arisen mainly out of the activities of United States and, to some extent, Western European manufacturing transnational corporations making investments abroad, has usually been undertaken by very large firms operating in oligopolistic industries. The reason suggested by the literature 6/ is that these firms endeavour to maximize the returns on specific advantages that they possess as individual entities. These advantages may be traceable to any one, or to a combination, of a variety of attributes: their technological superiority in making a particular product or utilizing a process; product differentiation, together with consumer preference for their product; special capabilities in the promotion or distribution of their product; their skill in management and organization; or the size, scale and scope of their activity. These attributes are usually associated with the existence of barriers to the entry of outsiders into the business and oligopolistic market structures at the level of the industry.

418. Such firms decide to invest abroad when it becomes more profitable to supply foreign markets with products made within the host countries than with exports from the home country. The decision may be made in the light of a variety of factors:

differences in factor costs between home and host country, the weight of transport costs, the need to site production of some differentiated and made-to-order goods as close as possible to the market, or the existence of tariff and non-tariff trade barriers. Even where foreign production is not clearly more profitable than exports, the decision to invest abroad may still be made because of a global marketing strategy designed to maintain or enlarge the firm's global market share. This case arises if there is a risk that the export market within the host country might be lost because of domestic production by a competing transnational corporation, or if there is an opportunity of winning a competitor's market share in the host country by undertaking local production.

419. The specific reasons for foreign direct investment in developing countries are likely to be the existence of tariff barriers and quantitative restrictions on imports and policies of deliberate import-substituting industrialization adopted by host countries. The result is that production in such countries either becomes more profitable than exports, or is in any case necessary for reasons of global marketing strategy. These considerations go some way towards explaining why foreign direct investment is concentrated in the middle-income developing countries - these have large markets for higher income differentiated consumer goods and complex advanced producer goods, more developed capital markets, and a better supply of human resources - and why it is the largest of these countries that account for the majority of this investment. They also help to explain the high degree of association between highly concentrated, oligopolistic industry structures and the presence of transnational corporations that has been observed in the manufacturing industry of developing countries - though the issue of the precise relationship between the two remains unresolved.

420. Import-substituting investments by transnational corporations may lead, and in many cases have led, to exports by affiliates from the host country. Exports may be made to neighbouring developing countries and/or other countries participating in a regional trading area, such as the Andean Common Market or the Central American Common Market. Some host developing countries, such as Brazil, have deliberately reoriented their industrialization policies by changing the emphasis from import substitution to export promotion, and adopted policies to encourage, or even require, the transnational corporations producing for the domestic market to export an increased proportion of their output. "Export-oriented" investment however, takes place for the specific purpose of selling the products in third markets, or in the home market of the investing corporation, or of producing parts or components for assembly into finished products in other countries. Here, the motive is usually related to the possibility of taking advantage of low labour costs and plentiful labour supply in some developing countries. For this reason, such investments have been most frequent in industries making labour-intensive products and using labour-intensive processes, especially in the textiles and garments and the electronics industries, where the technology of production permits the "fragmentation" of operations and the location of labour-intensive activities abroad.

421. Finally, as will be shown below, transnational corporations make an impact not only through foreign direct investment in majority-owned affiliates but also through a variety of "alternative" or non-equity forms, such as joint ventures, licensing, and turnkey contracts; and in some countries and industries these forms are far more significent than the investment itself. As pointed out in Chapter II, this is largely the result of deliberate policies followed by host developing countries, which have the effect of making access to their markets conditional on

the acceptance of these alternative forms. There may also be instances in which a transnational corporation voluntarily chooses, for a variety of reasons, to utilize such forms of involvement, in so far as they make it possible to earn returns on its specific advantages without the costs and the risks of equity investment.

422. The main characteristics of the geographic and sectoral pattern of foreign direct investment in manufacturing industries in developing countries are reviewed against the background sketched above. Where evidence is available concerning other characteristics, such as market orientation and relative labour- and capital-intensity, this is also reviewed.

2. Trends in foreign direct investment in manufacturing

(a) The geographic pattern

423. On the whole, the data indicate an upward trend in the developing countries' share in the total foreign direct investment made in manufacturing by transnational corporations from the leading source countries. For companies from five leading source countries, this share is estimated to have grown from 22 to 24 per cent between 1971 and 1978. 7/ For United States corporations, the leading source, the share increased throughout the 1970s, though it remains low by comparison with corporations from other leading sources countries (Table IV.4). For firms in the Federal Republic of Germany, the share fell in the 1970s, but since it is still well above that of United States corporations and since the share of firms from the Federal Republic of Germany in total foreign investment has been increasing, its impact on the share of developing countries as a whole is generally positive. The most notable sources are Japanese companies which invest two-thirds of their foreign direct investment in manufacturing in developing countries, with the share actually increasing slightly in the 1970s. Since the Japanese companies' share in total foreign direct investment is also growing, its impact on the developing countries share is also favourable. Considerable interest will therefore fall on the characteristics of the foreign direct investment made in manufacturing by companies of the United States, the Federal Republic of Germany and Japan.

424. There are wide differences in the regional and country distribution of the investment (Annex Table IV.3). United States-based transnational corporations remain strongly oriented towards Latin America (82 per cent of the 1980 stock of foreign direct investment in developing country manufacturing) and especially Brazil and Mexico (54 per cent of the 1980 stock). The share of Asian and Pacific countries has been increasing in the 1970s, but relatively slowly. Asian and Pacific countries predominate in the Japanese investment in manufacturing in developing countries; even so, the geographic pattern is more widely spread than that of the American firms: Asian and Pacific countries received 54 per cent of the outflow from Japan in 1971-1980 and other regions 46 per cent, with Latin America receiving 31 per cent. For British companies, Africa has been the leading region for foreign direct investment in manufacturing, closely followed by Latin America, but towards the end of the 1970s their annual investment in Latin America was running considerably higher than in Africa. However, the most important feature is the strong concentration of the investments by companies from these source countries as a whole on a relatively small group of middle-income developing countries, which either have relatively large domestic markets, or have developed a strong base in export-oriented manufacturing, or both.

Table IV.4. Share of developing countries in total stock of foreign direct investment in manufacturing industry of four leading home countries

(Percentage)

Country	1971	1980
Federal Republic of Germany	27.7	24.2
Japan	66.4 c/	67.7
United Kingdom	19.7	18.2
United States	17.6 a/	20.9 b/

Source: United States Department of Commerce, Survey of Current Business (October 1975 and August 1982); United Kingdom Department of Industry, Trade and Industry (15 November 1973); Business Monitor (1980); Federal Republic of Germany Minisjtry of Economic Affairs, Runderlass Aussenwirtschaft (various issues; Japan External Trade Organization, White Paper on Overseas Market - Foreign Investment (1972); Export-Import Bank of Japan, Bulletin of the Research Institutes for Overseas Investment (September 1981).

a/ Data are for 1973.

b/ Data are for 1981.

c/ Data are for 1970.

(b) The sectoral pattern

425. The leading industry groups in which foreign direct investments have been made are the chemical, transport equipment, electrical and electronic goods, machinery, the metallurgical industries, food and textiles (Table IV.5). The chemical industries account for the largest share of investment from all sources, except in the case of British companies; this industry's output consists of a variety of products including both intermediate and final consumers' goods such as basic petrochemicals, pharmaceuticals, paints, plastic products, fertilizers and pesticides. The remaining investments made by United States corporations abroad are spread over food and a wide range of durable consumers and producers goods in the other industry groups (Annex IV). As regards firms from the Federal Republic of Germany, the remaining investment is oriented towards the industry groups and activities which have a relatively high engineering content. Japanese firms are heavily committed in the textile industry of developing countries, although the share declined during the 1970s. For British companies the food industry predominates, together with chemicals, and the remaining industries are unimportant for these companies.

Table IV.5. Share of selected industries in total stock of foreign direct investment in manufacturing of developing countries of four leading home countries, 1980

(Percentage)

	Total	Food	Chemicals	Metal	Machinery	Electrical	Transportation	Textiles	Paper	Other
Germany, Fed. Rep.	100.0	1.2	24.0	7.1	12.4	17.1	16.8	...	...	21.4
Japan	100.0	3.4	25.6	21.6	6.3	9.0	7.2	15.4	3.9	7.6
United Kingdom	100.0	34.2	19.6	1.6	3.0	6.9	1.4	5.5	4.3	23.5
United States	100.0	10.9	25.2	9.4	9.0	10.5	11.3	...	...	23.7

Sources: United States Department of Commerce, Survey of Current BVusiness (August 1981); Business Monitor (1980); Runderlass Aussenwirtschaft (various issues); Export-Import Bank of Japan, Bulletin of the Research Institute for Overseas Investment (September 1981).

(c) Market orientation

426. It is often possible to discern a clear distinction between import-substituting and export-oriented investments in different countries and industries. For United States corporations, export sales represented only 18.1 per cent of the sales worldwide of all majority owned affiliates in 1977, but for such affiliates in Asia and the Pacific countries the share was 57 per cent, mainly on account of the predominance of electrical equipment and electronics in the investments made by these corporations in the latter region, and the strong export orientation of this industry. 8/ Japanese investment in Asian and Pacific developing countries has traditionally had a strong export orientation, as shown by data on the share of exports in total sales of Japanese affiliates in Hong Kong, the Republic of Korea and Singapore in 1974 (Annex Table IV.6). This is mainly because of the investment in the textiles and clothing, and the electronic industries. However in the other Asian countries investments were primarily local market oriented. Furthermore, during the 1970s there was a surge of Japanese direct investment in Brazilian manufacturing industry, including several heavy industry development ventures based on local natural resources. Much of this investment was made in import-substituting industry, though some of it was export-oriented.

(d) Factor proportions

427. United States data show significant variations in factor proportions according to industry groups. Fixed assets per employee in 1977 ranged from as high as $47,816 in the manufacture of agricultural chemicals to as low as $1,807 for electronic components (Annex Table IV.5). Accordingly, the overall character of direct investment made by United States firms in Asia and the Pacific is more labour-intensive than in Latin America because of the greater weight of the electronics industry in the former. There are also some industries where majority-owned affiliates in Asia and the Pacific are more capital-intensive than their Latin American counterparts. This is true for food processing, textiles and apparel, and machinery production, all industries where it is generally thought that there are substantial possibilities for varying factor proportions.

3. Impact of foreign direct investment on industrial performance

(a) General considerations

428. The effect of the trends in foreign direct investment on the growth of capacity and output in the manufacturing industry in the host developing countries varies according to: (i) how far the investments take the form of the acquisition of existing local enterprises in the industry and how far they constitute investment in new plant and facilities through the establishment of new enterprises; (ii) in the case of the former, what contribution the new owners (i.e. the corporations) make to the enterprise in question through reorganization, infusion of new equity capital and technology, re-equipment, etc.; and (iii) in both cases, what expansion path the affiliates of the corporations follow after the initial investment has been made, including decisions relating to reinvestment in new capacity, product choice, and pricing.

429. The evidence concerning these points is derived mainly from case studies of the involvement of transnational corporations in specific industries globally, and from case studies on their involvement in the manufacturing industry generally of a

single developing country. As might be expected, the evidence reflects a great variety of experiences from industry to industry and from country to country, although certain trends may be said to be discernible.

430. As regards the first point, the main determinants appear to be the level of complexity of the industry concerned, together with the general level of development of the host economy, especially of its private sector. In industries where the basic production technology used is not complex and is relatively mature, where capital requirements are not large, and where the scale requirements are small or medium, domestic enterprises are more likely to have been active before the entry of transnational corporations than in industries characterized by complex, advanced technologies subject to high rates of technical change and large capital and scale requirements. Hence, in a large number of developing countries that had reached even modest levels of industrial development, domestic enterprises were already engaged in a number of industries that became the targets of investments by transnational corporations. These include food-processing, beverages, a wide range of consumer goods based on the chemical industries (such as cosmetics, paints, detergents and other household supplies), clothing, and furniture. In the more advanced developing countries, especially in Latin America, domestic enterprises may also have entered the production of the simpler types of durable consumer and producer goods, such as household appliances, simple electrical equipment and metal products. Where technology is proprietary and controlled by transnational corporations but capital and scale requirements are not beyond the reach of domestic enterprises, licensing represents an additional route available to the latter for initiating production of previously imported products.

431. Where local production and the involvement of domestic enterprises is already well established, the evidence indicates that transnational corporations devote much of their investment in the industry in question to acquisitions of local enterprises. These corporations command superior financial resources, both on foreign and on local capital markets, superior management and organizational resources, direct access to the parent company's technology of their parent companies, and often superior marketing and promotional techniques - all of which give them a competitive edge over local enterprises. Acquisition is frequently preferred to the establishment of new subsidiaries, since it eliminates competing local enterprises and reduces the threat of overcapacity in the industry. Examples from the food-processing, pharmaceutical and electrical equipment industries illustrate the advantages of transnational corporations vis-à-vis local enterprises and how important acquisitions can be as a method of entry.

(b) Food processing

432. In the case of the food processing industry, it has been estimated that transnational corporations account for about one-eighth of total output in the developing countries, and the proportion rises to over 25 per cent in a number of the larger, more advanced countries where the sector has received a substantial injection of foreign investment. 9/ The involvement of transnational corporations in these industries has a pronounced bias towards the branded food sector, and in most developing countries the branded-food industries tend to be both highly concentrated and dominated by affiliates of such corporations. One important reason is said to be the effectiveness of their acquisition and promotion strategies. For instance in Mexico, which leads the developing countries as a recipient of direct investment in food-processing from United States corporations, about two-thirds of the subsidiaries of these corporations in the sector existing in 1975 had been established through acquisitions. 10/

433. The decisive reason why transnational corporations possess advantages over domestic enterprises in the branded-food sector are said to be product differentiation associated with "foreign" brand-name acceptance, and aggressive advertising, promotion and marketing campaigns publicizing the brand name. Neither the existence of large economies of scale nor the lack of production technology as such constitute significant hindrances to the competitive position of domestic enterprises. 11/

(c) Pharmaceuticals

434. The pharmaceutical industry is another consumer goods industry dominated by transnational corporations' operations in developing countries. Their market share in the industry in ten developing countries in 1975 ranged from 65 per cent (the Philippines) to 100 per cent (Saudi Arabia). 12/ The principal advantages of the large pharmaceutical transnational corporations over smaller competitors are derived from (i) patent rights, covering the composition of drugs, the manufacturing process, the products themselves, and sometimes the application; (ii) brand names, which may originally have been based on product patents but which, when registered as trademarks, may be used in perpetuity; (iii) product differentiation, which is associated with the use of brand names and patent protection; and (iv) economies of scale in the bulk manufacture of the active ingredients of drugs (such economies are not material in the manufacture of dosage form formulations, but at that stage patent rights and trademarks can constitute strong barriers to entry). In the less advanced developing countries, import-substituting production of pharmaceuticals may be initiated directly by subsidiaries of transnational corporations, or by domestic enterprises operating under licence from such corporations. In several of the more advanced developing countries with an existing local pharmaceutical industry, transnational corporations have entered and expanded the industry through the acquisition of local enterprises. In Brazil, for example, where the share of foreign enterprises in the industry grew from 74 to 88 per cent from 1962 to 1975, a total of 34 of the largest local pharmaceutical firms were acquired by transnational corporations between 1957 and 1978. 13/ In Mexico, whose pharmaceutical industry had achieved a position of world leadership in the steroid hormone sector in the late 1940s and early 1950s, the original six domestic steroid producers were acquired by six subsidiaries of transnational corporations between 1956 and 1963. By the mid-1970s, the subsidiaries accounted for 85 per cent of the sales, and for 38 of the top 40 firms, in the Mexican pharmaceutical industry. In Argentina, which has a well-developed pharmacutical industry, the market share of foreign enterprises in the industry grew from 48 to 57 per cent from 1973 to 1977.

(d) Electrical equipment

435. In the electrical equipment industry, another sector of the manufacturing industry of developing countries which has attracted a good deal of foreign investment, subsidiaries of transnational corporations are predominantly engaged in the assembly and manufacture of consumer electrical goods, standardized industrial products, and electrical and electronic components. In the more advanced of these countries production has been extended to small and medium-sized distribution transformers and power transformers and switchgear; large power-generation equipment is being produced in very few developing countries. Transnational corporations owe their advantages mainly to the sophisticated technolgy, the fast rate of technical change characterizing a large number of products in the industry, and the capital and scale requirements of the larger and more complex equipment in

the industry's range. In the 1960s, most developing countries followed open-door policies towards foreign investment in the industry, and transnational corporations entered frequently through the take-over of local enterprises; and Japanese and Western European companies also made substantial acquisitions. 14/ From 1960 to 1974, there were some 47 acquisitions in the Brazilian industry, all but one resulting in a new foreign-controlled firm. 15/ By 1977 transnational corporations accounted for 86 per cent of the industry's fixed assets and 79 per cent of its sales. 16/

(e) Effects of the conduct of subsidiaries

436. Where the acquisition of local enterprises in a developing country is the method employed by transnational corporations for gaining an entry into an industry, with the consequence that the foreign share of capacity increases, the contribution made by these corporations to the country's industrial growth should be evaluated by reference to the conduct of the newly acquired subsidiaries. The re-equipment of production facilities and a reorganization of management may have the effect of improving efficiency and reducing production costs. New product lines may be introduced, and in general the subsidiary in question may achieve a higher rate of innovation both in production processes and in product lines, as a result of direct access to the parent company's technology. In most cases in these industries effects of this kind can be observed: for example, new food and pharmaceutical products have been introduced, the production of electrical equipment has been extended to a broader range of items, management and organizational styles and production processes have been modified to conform more closely to the parent company's methods.

437. At the same time, the effects of such changes are not necessarily always positive. The introduction of new food and pharmaceutical products may not increase the range and availability of goods with intrinsic nutritional and health properties but may merely represent the proliferation of branded products satisfying the same needs, or needs of low social value. The social costs of this type of product differentiation in the food and pharmaceutical industry, which is associated with large advertising and promotional expenditures, can be quite high. 17/ In some instances in the food industry, new products may even have a lower nutritional value than the fresh or semi-processed items that they replace. Because the new production processes may be more capital-intensive, and therefore less well adapted to local factor endowments and to the size of the local market, their impact on employment may be limited and excess capacity may be created. Only a close examination can determine the net balance of positive end negative effects in any particular case, and it is in the light of such an investigation that the government concerned will need to shape its policies with respect to inward foreign investment.

(f) Impact on market structure

438. The foregoing discussion raises the general issue of the impact of transnational corporations on the market structures of industries in the developing countries. It is not possible to say a priori whether their entry into an industry will necessarily increase concentration or competition. Concentration will be increased if they practice certain methods of entry and of subsequent conduct, e.g., entry by acquisition of local enterprises and/or with large scale plant, heavy advertising and promotional expenditures and strategies of vertical integration that raise barriers to entry in the industry. On the other hand,

competition might be increased if the entry of transnational corporations adds to the number of firms within the industry and they adopt more competitive behaviour among themselves than local enterprises would have done in the absence of such corporations. In fact there is a great deal of evidence of a strong correlation between concentration and the presence of transnational corporation in specific industries in developing countries: in many, if not most of these countries, the corporations are relatively large, have large local market shares, and are over-represented in the more concentrated industries. 18/ It has also been found that the existence of economies of scale is closely correlated with the presence of transnational corporations and industry concentration. The difficult question is whether the corporations are merely attracted to concentrated industries or are a significant factor tending to increase concentration, and how far the concentration may be a reflection of the effect of scale economies rather than of their presence.

439. In view of the scarcity of available data and the difficulties of interpretation, only careful case studies of the impact of the entry and subsequent strategic conduct of transnational corporations can throw light on the subject. A recent series of studies of six industries and their impact in various Latin American countries found that the operations of transnational corporations had the general effect of transferring oligopolistic market structures from home developed to host developing countries. 19/ As a result, these studies conclude, there is an inherent tendency for excessively high prices to lead to supernormal profits, restricted production, and the orientation of output towards high-income, differentiated consumer markets rather than towards the satisfaction of basic needs. The studies do not, however, consider what might have been the situation in the absence of transnational corporations. In any case, as is explained later in this Chapter, many developing countries have found it necessary to adopt policies protecting the competitive position of domestic enterprises, and mitigating some aspects of the conduct of subsidiaries of transnational corporations that may be considered harmful from the social and economic point of view.

440. Where foreign investment takes the form of the establishment of wholly new enterprises there is clear and unambiguous evidence of a direct incremental contribution to industrial capacity. In general, the smaller and less advanced the country is, the more likely is it that investment will take this form, since previous local production of many import substitutes will either be small or non-existent. Hence, in many developing countries foreign investment in consumer goods industries such as those mentioned above can be credited with initiating local production, though these countries account for a relatively small fraction of foreign direct investment in the manufacturing industries of developing countries as a whole.

441. Some industries, however, hardly existed at all, even in the most advanced of the developing countries, before transnational corporations arrived on the scene. Among the most important of these are the automobile and transport equipment industry generally, basic petrochemicals, and agricultural equipment, with motor vehicles being perhaps the outstanding example. In such industries, the association of complex technology that is not generally available to domestic enterprises with large capital and scale requirements of operation made production by local firms virtually impossible. Typically, local production in these industries (except petrochemicals) started with the local assembly of imported components, sometimes in the form of kits that are "completely-knocked-down" (CKD) parts of a complete unit. In the larger developing countries with bigger markets, production may be extended backwards to include many of the components themselves.

(g) Experience of the automobile industry

442. The evolution of the automobile industry in developing countries merits special mention among the experiences of industries of this kind. The major transnational corporations in this industry - traditionally highly oligopolistic in the developed countries - invested in assembly and manufacturing facilities in the developing countries from the 1960s, in response to protectionist government policies in the host countries and the threat of preemptive moves by others. In the largest Latin American countries, several companies were authorised to establish production facilities on the condition that they manufactured locally a stipulated percentage of their total sales in that market and (in some cases) that they guaranteed a stipulated percentage of local value added in the total value of production. While production capacity has grown rapidly, the resulting structure of production resembled a series of small replicas of a developed country's facilities incapable of enjoying the important economies of scale characteristic of the industry. The high-cost, high-priced industry structure remained dependent on a high level of domestic protection and incapable of exporting competitively to international markets; owing to heavy import- dependence and limited exports, the drain on the country's balance of payments was also high. 20/

443. Eventually, in the largest Latin American countries, this state of affairs caused a different pattern of investment and trade to be adopted corresponding alike to the interests of the transnational corporations and to the needs of the host countries. In each country the corporations endeavoured to specialize in the production of certain parts and components, a portion of which would be exported, while others continued to be imported. Hence the corporations could utilize the possibilities of rationalization of their global operations by obtaining components from different developing countries to take advantage of international differences in production costs; more generally, plants in developing countries could be used for the manufacture of components requiring substantial labour inputs, of components (such as manual transmissions) which were being phased out of sales in developed countries, and of components the manufacture of which by the standard processes was no longer permitted under the antipollution legislation of developed countries. The host developing countries in their turn stood to benefit from higher output and employment, and from additional exports which would mitigate the balance-of-payments costs of the industry. 21/

(h) The capital goods sector

444. The capital goods sector exemplifies the variety of forms of the involvement of transnational corporations in a technology-intensive industry that is crucial to the industrial performance of developing countries, and the impact that government policies can have both on the forms of such involvement and on its results. This sector is among the least advanced of the industries of the developing countries: these countries accounted for only 4 per cent of world production of machinery and transport equipment in 1978, compared to over 8 per cent of world manufacturing output as a whole. Developing countries' imports of machinery from the OECD countries grew from under $17 billion in 1970 to over $122 billion in 1980. Apart from the foreign exchange costs of imports, domestic capital goods production in the developing countries is increasingly being seen as indispensable to balanced and sustained industrial performance, to the formation of backward linkages with the engineering industry and forward linkages with the consumer goods industries, and to the development of indigenous technological capabilities and the spread of innovations throughout the economy. Although most developing countries have the

potential to produce at least some types of capital equipment, such as agricultural implements, irrigation pumps, and small electric motors, industrial production in all but a few continues to be dominated by consumer goods and intermediate goods. However, a few of the largest and most advanced of these countries have achieved a significant level of development in capital goods production, with varying forms of involvement of transnational corporations. The experiences of Brazil, Mexico, India and the Republic of Korea in this area will be reviewed briefly.

445. In Brazil, domestic capital goods production now supplies about 80 per cent of local demand, and machinery manufacture grew from 11 per cent to 16 per cent of total industrial production between 1970 and 1978 and generated $2.4 billion of exports in the latter year. 22/ Growth has been rapid both in the manufacture of heavy electrical equipment and in the production of non-electrical equipment such as machine tools, agricultural equipment and construction machinery. Transnational corporations have been substantially involved in this growth through foreign direct investment, which amounted to $3.2 billion in 1980, the highest in this sector in the developing world. Several major manufacturers of heavy electrical equipment, machine tools, transport equipment and specialized industrial and construction equipment from the United States, Western Europe and Japan have set up subsidiaries and joint ventures, often through a full or partial takeover of existing locally-owned companies, though several new companies and large production plants have also been established. In 1977 subsidiaries of such corporations accounted for 100 per cent of sales in the automobile industry and for 90 per cent of sales of electrical equipment and communications equipment, 80 per cent of tractors, earth-moving and construction machinery, and 72 per cent for automobile parts and components. 23/

446. Brazilian-owned companies also have expanded production capacity significantly, particularly in the case of machine-tools and non-electrical equipment, often under licensing arrangements made with foreign manufacturers. For joint ventures between foreign and locally-owned companies also, technology and know-how are generally supplied by the foreign partner. At the same time, growth of indigenous technological capability and adaptability has been achieved by Brazilian-owned companies, many of which expanded significantly during the 1970s, particularly those making machine tools and other mechanical equipment. On the whole, the extent of domestic integration in the Brazilian capital goods industry is higher than in other developing countries as regards most machinery subsectors, and a considerable export capacity has been attained for certain categories of machinery and equipment, though in the electrical power equipment subsector, at least, subsidiaries of transnational corporations have exhibited higher import-intensities than their domestic counterparts and limited domestic R & D efforts. 24/

447. In Mexico, the domestic production of capital goods is considerably less advanced than in Brazil: production was valued at $1.6 billion in 1980 and supplied about 40 per cent of total demand for mechanical and electrical equipment. 25/ Since the 1950s, the growth of production has been sustained, though at a moderate rate, and production capacities have been created in most branches of mechanical and electrical equipment manufacture. Most machinery manufacture in Mexico was initially undertaken by subsidiaries of foreign firms, mostly of United States transnational corporations and generally in response to the Mexican policy of import substitution. At the time of their entry, most of the corporations operated through wholly-owned or foreign-majority subsidiaries, but since 1973, when Mexico's policy began to emphasize national shareholding, a number of these companies have reduced their majority ownership in favour of local

partners or through public issues of shares. In several subsidiaries, nevertheless, foreign interests continue to hold a majority of the share capital, and exceptions have been made in these cases because of the technological sophistication of their products: in the electrical equipment subsector, for example, over 75 per cent of the companies continue to be foreign-controlled. 26/

448. Some large privately owned Mexican companies played a growing role in machinery production during the 1970s; for the manufacture of specific lines of equipment, they have entered into licensing agreements with leading foreign manufacturers, including some from Western Europe and Japan. State-owned enterprises manufacture certain types of machinery such as railway equipment, machine tools and other machinery products. However, Mexican demand for machinery and equipment rose rapidly during this period, resulting in a high rate of growth of imports of these products, which represented 50 per cent of Mexico's total imports in 1980. Production capacity in various machinery subsectors, together with the level of domestic integration, has also generally tended to be lower than in Brazil or India, particularly in the case of electric power equipment, machine tools, and specialized industrial machinery. Machinery exports from Mexico have also been relatively low, though largely because of strong internal demand. Transnational corporations have contributed to the creation of production capacity in several machinery subsectors and have supplied technology through joint ventures and licensing arrangements to several Mexican-owned enterprises, which specialize in certain fields of machinery production.

449. In India, the capital goods industry has reached a relatively advanced stage: machinery and equipment accounted for 20 per cent of manufacturing value added in 1979-1980, and the production of engineering goods grew from $4 billion in 1970-1971 to $15 billion in 1979-1980, while imports of machinery and equipment were valued at only $1.5 billion in 1979 (machinery exports are, however, quite limited). 27/ Domestic machinery production covers most of internal demand in major subsectors: over 95 per cent of heavy electrical equipment is now produced locally, and the domestic production of mechanical equipment has also become diversified in most subsectors, including machine tools, agricultural machinery and process and construction equipment. This achievement reflects in part the high priority attached to the industry and the large resources allocated to it by the Government of India in the 1960s and 1970s. In contrast to Brazil and Mexico, State enterprises have led progress in the sector, accounting for the bulk of the production of heavy electrical equipment, heavy equipment for steel plants and the machine tools industry, heavy chemical plant equipment and high-pressure vessels, heavy-duty pumps and compressors, electronics, and generally of the more sophisticated capital goods. Production by private sector companies, mostly locally-owned enterprises and joint ventures with minority foreign holdings, account for most of the output of standard mechanical and electrical products. Domestic integration has been maximized in almost all branches of capital goods manufacture and a high level of technological absorption and adaptation has been achieved.

450. The role of affiliates of transnational corporations in the manufacture of machinery in India has changed in the course of time. In the 1950s and early 1960s, a number of foreign-majority subsidiaries, largely of British companies, had initiated the manufacture of various engineering products and of standard industrial machinery in India. In the early 1970s, after the enactment of the Foreign Exchange Regulation Act, most of the foreign companies reduced their interest in the subsidiaries, generally through the sale of shares to the public.

As a result, the role of the subsidiaries in capital-goods manufacture decreased significantly and the technological participation of transnational corporations now takes the form principally of minority joint ventures and licensing agreements. Transnational corporations have been an important source of advanced technology for large, Indian-owned companies and, in several cases, licensing of more advanced technology has been associated with minority participation by the licensor in the equity of such companies. Most licensing agreements relating to electrical and mechanical equipment do not, however, make provision for foreign participation in the licensee's equity. During the period 1970-1979, a large number of agreements relating to the technology used in capital goods production - many of them with transnational corporations - were entered into, including 563 for the production of industrial machinery, 519 for electrical equipment, 161 for machine tools and 136 for metallurgical industries. Regulatory guidelines concerning foreign technology, which have limited the duration of licensing agreements, have generally resulted in the rapid absorption and gradual adaptation of foreign technology. The rapid growth of capital-goods manufacture in India has made the country largely self-sufficient and has undoubtedly provided a strong and diversified machinery base. Production efficiency has been farly high in most of the private-sector enterprises and in several State-owned enterprises, such as BHEL and HMT, and these have achieved considerable export capability.

451. The Republic of Korea achieved the highest growth rate among developing countries in the manufacture of capital goods during the 1970s: the value of its output of machinery and equipment rose from just over $1 billion in 1970 to $14 billion in 1980. 28/ Even then, 50 per cent of the country's machinery demand had to be covered by imports, valued at close to $7 billion in 1980. A large share of the capital goods produced in the Republic of Korea is accounted for by relatively few large, private-sector companies. Government policy has been to apportion the principal subsectors of the industry among leading companies, many of which form part of large, diversified conglomerates and which are the country's only producers of particular types of lines of product. This is the case in the manufacture of large power-generation equipment, transport equipment and plant equipment, a wide range of mechanical equipment, and mining and construction equipment. A number of medium-sized companies are producing relatively simple, standard machinery products, mainly for the domestic market.

452. Subsidiaries of transnational corporations have not played a prominent role in this industry in the Republic of Korea. During the 1967-1981 period, total foreign investment in the machinery sector was less than $100 million in 124 projects. 29/ Most of these subsidiaries are joint ventures, predominantly with Japanese companies which have licensed their technology and have an equity interest in the ventures. Several of these joint ventures also have subcontracting relationships with the licensors and manufacture parts and components for such licensors. During the 14-year period 1967-1981, the inflow of foreign investment into the transport equipment sector amounted to $34 million in 97 companies, most of which manufacture parts and components for the transport industry. 30/ Technology licensing has also been a major form of involvement by transnational corporations. In the power equipment subsector, for example, there were five joint ventures, two with 50 per cent foreign holdings and the rest with minority foreign ownership, but seven licensing agreements were concluded, mostly with United States and West European manufacturers. Several companies in the Republic of Korea established recently in the Changwon industrial area have entered into technology agreements with leading transnational corporations in the capital goods sector. These comapnies have also diversified the sources of their technology, switching from Japanese companies,

traditionally the principal suppliers of technology, to local sources. In most cases, however, despite the transfer of advanced technology, local content continues to be fairly low and critical parts and components continue to be imported.

453. The rapid growth of machinery manufacture in the Republic of Korea is attributable largely to the country's strong technological infrastructure and the enterpreneurial initiative of leading industrial groups, with strong support by the Government and financial institutions. Transnational corporations have acted principally as suppliers of technology and as partners in joint ventures with the large, locally-owned industrial groups.

454. The experiences of these four countries show a varied pattern of involvement by transnational corporations in capital goods production, from heavy foreign direct investment in Brazil and Mexico, to licensing and joint venture arrangements, mainly with State enterprises in the case of India and mainly with private enterprises in the Republic of Korea. Licensing arrangements have given firms in the two last-mentioned countries greater flexibility in acquiring machine-building technology from various foreign sources. The pace of domestic integration has tended to be faster under licensing arrangements, though depending largely on the domestic industrial and technological infrastructure.

455. Experience in these countries indicates that transnational corporations can contribute to the growth of production capacity and technical capability for the manufacture of capital goods. Their participation has, however, to be consistent with the host country's policies, except where market forces themselves are adequate to persuade them to make such investment, as in the case of Brazil in the 1960s or in the case of export-oriented production in Hong Kong or Singapore at present. In most other countries, host governments need to determine the relative priority to be accorded to domestic machinery manufacture and to identify those machinery products and groups which are techno-economically viable in the local setting. India set such priorities during the 1960s in respect of all categories of machinery and equipment. Similar planning was done in Mexico and the Republic of Korea during the 1970s and has been undertaken in several other developing countries. Such planning is generally based on import projections for various categories of equipment, in the light of the growth and projected machinery demand of the principal user sectors and the existing capabilities of domestic manufacturing. It is then that foreign manufacturers can be approached to participate in investments to increase capacity and negotiations can be undertaken on issues such as ownership, domestic integration, incentives and concessions and the like.

456. As regards domestic integration, its progress may need to be suitably phased, so that quality does not suffer and prices remain competitive. The production of major parts and components for machinery products may often be severely constrained because of limited internal demand and because the local industry does not enjoy the scale economies necessary for competitive manufacture, apart from the constraints of investment and technology requirements. At the same time, the experience of Brazil and India and, to a lesser extent, of Mexico and the Republic of Korea, shows that a significant increase in domestic content can be achieved in a relatively short period, provided that the industrial and technological infrastructure is available. The level of domestic content achieved in these countries' capital goods sector has, by and large, been consistent with the maintenance of productive efficiency in machinery manufacture, as indicated by

their success in exporting a wide range of machinery products. In Brazil and Mexico, transnational corporations in the automotive industry have concentrated on production of certain types and components for external markets, so that the proceeds from such exports can cover the cost of imports of other parts and components.

D. Transnational corporations international trade, and the industrial performance of developing countries

1. Introduction

457. The special characteristics of transnational corporations give them a potentially unique role in the international redeployment of industry and the associated process of structural adjustment at the global level. As "global scanners", they are in a better position than other firms to recognize the need to shift industrial production to sites offering the lowest costs internationally, and to take advantage of the resulting opportunities through investment in foreign production. Such a shift frequently coincides with the wishes of developing countries to promote exports of manufactured goods as a means of accelerating their industrial growth. In many developing countries, government policies have therefore been shaped to stimulate investment by transnational corporations in export-oriented industry, to increase exports from existing affiliates of such corporations, and to encourage export sales by domestic enterprises to these corporations.

458. The industrial and geographic distribution of export activities of transnational corporations in developing countries is conditioned by a combination of economic, institutional and political factors operating within both home and host countries. Industries that are the most likely candidates for redeployment are those in which economies of scale do not constitute a strong barrier to entry, which are labour-intensive, and which have low transport costs, or industries with segments of the production process that both share these characteristics and are capable of being detached from the main activity and are located in another country. Strong competition in the industry in home markets also appears to be an important factor impelling transnational corporations to consider production abroad as a means of cutting costs. Thus this kind of redeployment of industry first began to occur in labour-intensive activities, such as electronics, footwear and apparel, in response to competition from firms from low-wage foreign countries. United States corporations first undertook the off-shore assembly of products of those industries which were most severely affected by competition from imports into the United States market. 31/ Japanese and Western European competitors in that market imitated the pattern shortly thereafter.

459. Foreign direct investment by Japanese firms in labour-intensive, export-oriented manufacturing in neighbouring low-wage Asian countries merits special mention in this context. By the mid-1960s the position of Japan's traditional labour-intensive export industries, such as textiles, metal products, and simple electrical appliances, was being threatened by a combination of rising real wages at home and successive revaluations of the yen. The large trading companies took the initiative in encouraging and assisting the threatened firms to relocate in neighbouring low-wage countries whence they could export to Japan and third markets, with generous support from the Government. The investing firms included many small enterprises producing small-scale, labour-intensive,

simple-technology products in competitive branches, which also have shown great propensity to engage in joint ventures with enterprises in host countries (as well as with the large trading companies). 32/

460. In other mature transnational industries, such as motor vehicles, petrochemicals, and heavy electrical equipment, the redeployment occurred less quickly for a number of reasons. First, overseas costs comprise many elements, and labour costs, while significant, take second place to capital inputs and to infrastructure costs, which may be higher in developing countries than elsewhere. Second, the fixed costs of installing plant and equipment for these industries are often high, and hence parent companies are more hesitant to commit themselves to large programmes without careful research and, better yet, considerable experience of manufacturing in the host country concerned. Third, many of the strong price-competitive forces emerged in these industries in the mid-1970s, after the rise in oil prices and after leading United States corporations had encountered adverse shifts in relative factor prices and consumer tastes. However, the latter part of the 1970s was also affected by the slow economic growth in developed countries and the tight monetary policy of their governments. These conditions left companies in these mature transnational industries with weak profit positions and forced them to curtail their investment expenditures worldwide. More recently, slow growth in developing countries has also hampered any process of redeployment in these industries because profitable opportunities are far more limited.

461. The decision to locate an industrial activity in a specific developing country is influenced, first of all, by the presence of a low-wage but semi-skilled labour force, which is essential. The stability of the country's macroeconomic policy and political environment is also important. The existence of a large domestic market which can absorb a substantial proportion of sales is a further advantage, as is proximity to markets for final products which reduces transport costs. Within the host country, foreign enterprises enjoy certain advantages over local firms, such as a superiority of technology which acts as a barrier to the entry of newcomers and access to external markets, and to information.

462. On the assumption that conditions in the host country are on the whole favourable, the intensity of the activity of transnational corporations depends also on the emphasis placed by government policies on export-oriented production. For example, export-processing zones, which establish the "ideal" conditions for export-oriented industry, have been highly successful in some newly industrializing countries which satisfy these criteria (though not necessarily in all developing countries in which they have been established). Hong Kong, the Republic of Korea and Singapore, for example, adopted export-oriented industrialization strategies from a relatively early stage (Hong Kong and Singapore because of their small domestic markets). In Brazil and Mexico, among others, policies favouring export-oriented production came at a later stage, after the limitations of import-substituting industrialization had become apparent. The role of transnational corporations in these countries varies according to the relative importance of different industries in the export strategy and to the relative advantages of foreign over domestic enterprises in these industries.

2. The share of transnational corporations in manufactured exports from developing countries

463. Available data (Table IV.3) indicate that transnational corporations account for a considerable share of the exports (i.e. nearly one-third or more) of at least

six newly industrializing countries, including most of those responsible for the strong export performance of this group of countries. In Argentina, the Republic of Korea, and Mexico, the share approaches one-third in Brazil, it is over 40 per cent and in Singapore it exceeds 90 per cent. In the Republic of Korea and Singapore, the share of transnational corporations in exports is higher than their share in the total output of the manufacturing sector (25 per cent of exports compared to 11 per cent of total manufacturing sales in the Republic of Korea and 91 per cent of exports compared to 30 per cent of manufacturing output in Singapore), indicating that these firms play a strategic role in the growth of manufactured exports from these countries. This can be attributed to (i) significant labour cost advantages offered by these countries, together with (ii) a conscious government policy to steer foreign investment into export-oriented industries. As can be seen in Annex Tables IV.7 and IV.8, the exports of transnational corporations in these two countries are spread over a wide range of manufactured products that are labour-intensive (textiles and clothing and metallurgical products in the Republic of Korea), or technologically advanced (chemicals and refined oil products in the two countries), or both (electrical and electronic goods, non-electrical machinery, and transport equipment). The pattern reflects the success of these countries in attracting Japanese and (to a lesser extent) United States companies into offshore assembly and "sourcing" operations in these industries.

464. In Argentina, Brazil, and Mexico, the share of transnational corporations in exports is roughly the same as in over-all manufacturing output and sales. The explanation is twofold: (i) the labour cost advantages, relative to those in developed countries, are smaller than in the Asian newly industrializing countries, and (ii) manufactured exports have grown up as an extension of import-substituting industrialization: purely export-oriented industries have played a lesser role. Accordingly, highly labour-intensive industries such as electronics and clothing, though not unimportant, play a smaller part in these companies' exports from the Latin American countries than they do in exports from the Asian countries mentioned. A higher share is accounted for by relatively more technology-intensive goods, especially transport equipment and chemicals.

3. Export-processing zones

465. The activities of transnational corporations in export processing zones (EPZs) of developing countries 33/ have contributed materially to the growth of the latter's manufactured exports. By 1980 there were 53 EPZs in developing countries, employing not quite one million persons. 34/ The majority of these zones are located in Asia and Latin America and the Caribbean, principally in newly industrializing countries. Of the estimated total employment in the zones in 1978, 72 per cent was accounted for by the seven established in the Republic of Korea, Singapore, Mexico, Hong Kong, Malaysia, the Philippines and Brazil, ranked in order of the size of the workforce (Table IV.6). The most important industries in EPZs are those manufacturing electrical and electronic goods, and textiles and apparel.

466. Transnational corporations have a substantial commitment in these industries, especially the former, which they dominate. The production process in these industries has made it possible to fragment operations and to locate labour-intensive activities in developing countries, taking advantage of their relatively abundant, low-cost labour. 35/ Such redeployment has been facilitated by favourable treatment under the United States tariff code items 806.30 and 807.00, which limits customs duty to the foreign value added in the imported

Table IV.6. Employment in export-processing zones, 1978 a/

Country/territory	Employment
Africa	
Mauritius	17 500
Senegal	600
	18 100
Asia	
Hong Kong b/	59 600
India	3 200
Malaysia	56 000
Philippines	24 600
Republic of Korea	120 000
Singapore	105 000
Sri Lanka	5 200
Other Asia	77 400
	451 000
Latin America and Caribbean	
Brazil	27 300
Colombia	2 800
Dominican Republic	14 400
El Salvador	2 900
Haiti	40 000
Honduras	1 500
Jamaica	1 000
Mexico	70 000
Nicaragua	5 000
Panama	600
	165 000
Middle East	
Egypt	10 000
Jordan	600
Syria Arab Republic	600
	11 200
TOTAL	645 800

Source: Export Processing Zones in Developing Countries. UNIDO/ICIS. 176, 18 August 1980.

a/ The table includes only those countries for which employment figures in export zones are available. With the exception of Singapore (1974), Mauritius (1977), Hong Kong (1975), all figures are for 1978.

b/ Includes only employment in foreign-owned firms.

product. In the electronics industry, this is the case especially of semiconductor assembly and simple testing, and the tendency for transnational corporations to shift these stages of production to developing countries has been particularly marked. Hence, a sample of 37 leading United States, Japanese and Western European companies which in 1979 accounted for more than 90 per cent of world semiconductor production, had 23 ventures in developing countries in 1971, 46 in 1974, 72 in 1976 and 87 in 1979. Out of these ventures in 1971, 21 were located in South East Asian countries, and the comparable number in 1974 was 43, in 1976, 52 and in 1979, 60. The rest of the ventures in these years were located in Latin America, notably in Mexico. 36/ United States corporations have been particularly active in this area. Imports of semiconductors into the United States under tariff items 803.60 and 807.00 grew from $139 million in 1970 to $1,479 million in 1978, and the share of semiconductor imports from offshore locations in all such imports was 82 per cent in 1978. 37/ For United States-based semiconductor transnational corporations, imports of semiconductors from offshore locations in developing countries grew from 8 per cent of their total shipments to the world market in 1970 to 30 per cent in 1978. For Japanese companies the corresponding figure is less than 10 per cent. 38/

467. In the textile and apparel industry, labour-intensive activities that lend themselves to location in developing countries are certain stages in the manufacture of garments and various types of apparel. The involvement of transnational corporations in this area has also been considerable, but the involvement of local corporations in developing countries themselves has been strong. Local firms accounted for 42 per cent of clothing and footwear exports of the 318 largest enterprises in Brazil in 1973, for 75 per cent of Mexico's total exports of the same product groups in 1974, and for 88 per cent of textile and apparel exports by the Republic of Korea in 1974. 39/ One reason is that, while corporations engaged in the electronic/semiconductor industry in developed countries have obvious advantages by reason of their vertical integration and access to technology, textile and garment manufacturing companies in developed countries do not enjoy comparable advantages. Hence, the tendency for the United States apparel industry to locate certain operations offshore, though not negligible, has not been as strong as in the case of electronics manufacturers. While the growth in apparel imports into the United States under tariff item 807 outpaced the growth in total apparel imports, the shares of apparel imports under this item in total United States apparel imports were only 2.9 per cent in 1970 and 7.6 per cent in 1976. 40/ Moreover, not all the segments of the United States apparel industry took equal advantage of the tax provisions. By 1976, nearly 74 per cent of apparel imports under item 807 were concentrated in three segments: women's, girls' and infants' undergarments and nightwear; men's and boys' furnishings; and women's, girls' and infants' blouses, coats and suits. While these imports in 1976 orginated in more than 20 countries, Mexico alone accounted for nearly one-half and another one-quarter originated in five other countries: the Dominican Republic, Haiti, Costa Rica, the Philippines and Colombia, in that order. 41/

4. Foreign trade performance of foreign firms

468. An important issue for government policies concerns the performance of foreign as compared to domestic firms in manufactured exports and in import costs. Major differences in export and/or in import propensities may affect the relative emphasis on foreign as compared to domestic enterprises in economic policies.

(a) Exports

469. As regards export propensities, the global structure of transnational corporations can give rise to both positive and negative effects by comparison with domestic enterprises. Their subsidiaries, as part of the parent companies' total networks, have better access to full information about export markets. The very existence of the network provides essential marketing information and channels through which to sell the subsidiary's products. The firm with global operations is in a better position to evaluate and compare costs of production in several locations. One author has suggested that some firms may build up sophisticated "global scanning" capacities enabling them to obtain supplies from the most economical sources, 42/ although in fact only a few firms have as yet reached this level of sophistication.

470. On the negative side, there is the fact that the transnational structure itself might mean that shifting production among countries generates additional costs to the firm. An exporting subsidiary may compete with an established subsidiary in the export market, displacing production of the latter and causing capacity to be underutilized. Local firms by definition need not reckon with costs of this kind when considering exporting activity. In addition, subsidiaries of transnational corporations producing in heavily protected domestic markets often evolve a high-cost production structure that hampers exports unless generous subsidies are provided (though domestic enterprises may suffer from the same handicap).

471. Empirical studies have been carried out in several developing countries to determine the share accounted for by total exports of manufacturing transnational corporations in their total sales, by measuring either the over-all export/sales ratio for the corporations as a whole or their share in manufactured exports compared to that in the total value of manufacturing production. The studies were carried out in Argentina, Brazil, Colombia, India, Iran, Jamaica, Kenya, Malaysia, Mexico, Peru, and Venezuela. 43/ They generally show that the subsidiaries of transnational corporations export less in relation to their sales than domestic enterprises. The reason may be that domestic enterprises tend to engage in industries where the ratio of exports to total sales is higher than the average for the manufacturing sector as a whole. Within the same industry, export propensities may not differ greatly; an elaborate study of 550 large enterprises in Brazil for the period 1974-1978 revealed no sizable differences in export propensities between foreign and domestic enterprises. 44/ Similar studies of the Republic of Korea showed slightly higher export propensities for foreign enterprises within the same industry, 45/ but it is not clear whether this was due to specific influences operating in that country, or to genuine differences in the behavioural pattern of firms. On the whole, the evidence suggests that the mere presence of transnational corporations in a country's manufacturing industry does not necessarily contribute to strong export performance, at least not more so than domestic enterprises; neither does that presence impair export performance if the trade and macroeconomic environment is favourable.

(b) Transnational corporations and import demand

472. This topic should be considered both in relation to the macroeconomic effect of the presence of transnational corporations in manufacturing industry on the import demand of the manufacturing sector as a whole, and in relation to the microeconomic effects of their ownership at the enterprise level on import demand.

The macroeconomic effect depends on the relative distribution of the subsidiaries of the corporations among industries with different import propensities, while the microeconomic effect depends on the relative import propensities of the subsidiaries and domestic enterprises within the same industry.

473. As regards the macroeconomic effect, it should be borne in mind that investment by transnational corporations in import-substituting industry occurs as tariff or non-tariff barriers erected by the host country, or cost considerations, shift to favour domestic production over the export of final goods to the host economy. The corporations tend to initiate the production of final goods locally while continuing to import the required components, inputs, and machinery from the home country. It is to be expected, therefore, that their subsidiaries tend to be located in industries with relatively high import intensities and that, where their presence in manufacturing is sizeable, they will also account for a major share of the aggregate imports of the manufacturing sector. A study of the share of transnational corporations in imports of the manufacturing sector during 1973-1974 showed it to be 20.7 per cent for Argentina, 24.5 per cent for Brazil, 25.2 per cent for Mexico, and 12.1 and 9.6 per cent for Peru and Venzuela respectively, the average for these countries being 20.7 per cent. 46/

474. As far as the microeconomic effect is concerned, several studies also show that subsidiaries of transnational corporations tend to have higher import propensities than domestic enterprises within the same branch of an industry. Although the methods used varied in sophistication, these were the findings for Brazil, Canada, Costa Rica, India's engineering industry, the Republic of Korea, Mexico, and Peru. 47/ One study of Brazil used three different econometric methods (a full sample across all industries, a full sample with two-digit industry dummies as a "control" for industry, and a matched sample of firms in the same industry) and found that foreign ownership was significantly associated with greater import propensities in all three. 48/

475. There are several reasons why, within the same industry, transnational corporations may lag behind domestic firms producing similar products in establishing input-supplying industries within the host country. First, foreign firms have installed capacity at home which can supply the subsidiary, often at low marginal costs, while producing the same inputs within the host country might involve writing off this capacity and incurring substantial new fixed costs associated with the initial investments. Domestic firms do not have this constraint, and need only compare the costs and the benefits of establishing supplying industries with those of reliance on independent suppliers.

476. Associated with this is a second reason: the fact that parent companies make profits on production at home which is exported to subsidiaries in host countries, whereas domestic firms may wish to integrate backwards precisely in order to internalize the profits generated in supplying industries. Thirdly, parent company exports to the subsidiary create the opportunity to transfer profits from the host country through the mechanism of transfer pricing, an opportunity that does not exist for domestic firms. Finally, foreign firms may view supplies from their home country as being more reliable in quantity and quality, while domestic firms may have better knowledge about local supplies and therefore may be less reluctant to rely upon them.

477. Concern over the import costs of transnational corporations in manufacturing, as well as the desire to promote manufactured exports, led the governments of some

of the more industrialized developing countries in the 1970s to adopt regulations affecting both the import and the export propensities of local subsidiaries of such corporations. 49/ On the import side, such performance requirements specify import ceilings and/or a target for the ratio of local value added to the value of production while, on the output side, they specify a target for the share of exports in the value of sales. A question that merits further investigation is how far the indirect import content of local value added may not substantially reduce the net savings of import costs arising out of complying with this kind of performance requirement. More general considerations relating to the use of performance requirements as a policy instrument are discussed in Chapter III.

5. Intra-firm trade

478. Special reference should be made to the incidence of intra-firm trade - international trade that takes place within the context of the ownership or affiliation ties of transnational corporations - and to the implications of this phenomenon for developing countries. There are several indications that intra-firm trade at present accounts for a substantial proportion of total international trade. For the United States in 1977, 39 per cent of total imports and 36 per cent of total exports can be classified as intra-firm trade (Annex Table IV.9); these figures cover transactions between United States parents and their foreign affiliates as well as those between the United States affiliates of foreign-owned transnational corporations and their parent companies abroad. The proportion of intra-firm exports in the total exports of the United Kingdom increased from 29 per cent in 1976 to 31 per cent in 1980. 50/ A sample of 329 of the world's largest industrial enterprises for 1977 showed that one-third of all parent company exports consisted of intra-firm sales, with the share varying from 45 per cent for United States firms, to 30 per cent for those based in Western Europe, and to 17 per cent for Japanese firms (Table IV.7). An UNCTAD estimate suggests that roughly 30 per cent of all world trade could be classified as trade between related parties. 51/

479. Data for individual developing countries show the importance of intra-firm flows in their exports and imports. In Brazil, intra-firm transactions accounted for 50 per cent of the imports and 73 per cent of the exports of United States subsidiaries in 1972; 52/ United States firms operating in Mexico imported 58 per cent of their total imports from their parents and sold 82 per cent of their exports to them in the same year. 53/ Over-all, 37 per cent of United States imports of manufactured goods and 17 per cent of semi-manufactured goods from the developing countries in 1977 were related-party imports. 54/ Subsidiaries of British firms in the developing countries imported from their parent firms about one-quarter of their recurrent imports and slightly less than 10 per cent of their plant and equipment imports. 55/ Affiliates of companies based in the Federal Republic of Germany operating in Argentina, Brazil, India, and Mexico, sold nearly 60 per cent of their exports to companies in the parent system abroad in 1976. 56/ Data concerning the export processing zones show the importance of intra-firm exports from these zones, especially where exports of electronic goods to the United States are concerned.

480. United States data on intra-firm transactions, which are the most detailed available, show that intra-firm manufactured imports from developing countries are concentrated in certain countries and categories. Singapore, Mexico, Brazil, and Hong Kong account for 49 per cent of the manufactured exports of majority-owned affiliates of United States companies operating in developing countries to the United States, of which a very large proportion is represented by intra-firm

Table IV.7. Intra-firm trade in the home countries' exports of large industrial corporations, 1977, by home country

Home country	Share of intra-firm trade in parent companies' total exports
Canada	39.3
EEC	29.6
Europe (total)	29.7
France	32.2
Germany, Federal Republic of	34.6
Japan	17.0
Other Western Europe	29.8
Sweden	36.1
United Kingdom	29.6
United States	45.5
Other countries	22.8
TOTAL	32.8

Source: J.H. Dunning and R.D. Pearce, The World's Largest Enterprises, (Gower, 1981), p. 132.

sales. Intra-firm imports of manufactures from developing countries are dominated by electrical and electronic goods, which accounted for 67 per cent of the total in 1977 (Annex Table IV.11).

481. Some of the implications of intra-firm trade for developing countries, i.e., those relating to the export and import propensities of subsidiaries of foreign firms in their manufacturing industry, have already been discussed. Intra-firm trade also raises certain concerns in that it involves the use of transfer pricing to value the transactions, i.e., the establishment of prices by the parent company that may be different from those which apply, or would apply, in arm's length transactions. Transfer pricing of both imports and exports may be used to shift profits from the subsidiary to the parent company or another affiliate in order to avoid foreign exchange restrictions and reduce tax liability in the host country, with consequential adverse effects on the balance of payments and the tax revenue of the host country. Where transfer pricing is used to shift

profits to offshore tax havens, the home countries are also adversely affected. Secondly, resource allocation within the host country may be distorted, to the extent that (a) transfer prices are used as a guide to investment decisions by local enterprises and to the Government's macroeconomic policies, and (b) they deviate from the arm's length prices which would have applied to those transactions.

482. More generally, the internalization of trade represented by intra-firm transactions may have the effect of raising the barriers to entry and reinforcing the dominant position of transnational corporations in upstream or downstream markets within the industry. Of these issues, the attention of developing countries has been focussed mainly on the tax revenue and balance-of-payments implications of transfer pricing.

6. Conclusions

483. Developing countries, especially the newly industrializing countries, achieved a strong performance in exports of manufactured goods in the 1970s, an achievement which greatly contributed to their high rates of industrial growth. Transnational corporations participated actively in this process in most of the newly industrializing countries, and played a leading role in at least two of them. However, in most of the newly industrializing countries domestic enterprises contributed materially to the growth of manufactured exports, and, in some countries export-led industrialization has been largely achieved by national firms. In most countries for which evidence is available, transnational corporations do not seem to have a higher propensity to export than domestic enterprises within the same industry, while their import propensities are usually higher than those of their local counterparts. The resulting concern about the foreign exchange implications of the operations of foreign firms has caused some developing countries to prescribe performance requirements for exports and local procurement to be observed by local subsidiaries of such firms.

484. Transnational corporations have been most successful in contributing to the expansion of manufactured exports in three situations. First, in industries where international cost comparisons make it profitable, and the production technology makes it feasible, to redeploy production or segments of the production process to the developing countries, to take advantage of the latter's comparative advantage in labour-intensive production and products based on mature, standardized technologies. Secondly, where objective economic conditions in the developing countries concerned offer very favourable circumstances for export-based manufacturing. And third, where government policies in the host countries are strongly oriented towards manufactured exports, and assign to these corporations a strategic role in these activities. Such has been the case in the Republic of Korea and Singapore, and in the export processing zones in a number of developing countries.

E. Transnational corporations, technology transfer and industrial performance

1. Introduction

485. Technology transfer or "commercialization" 57/ activities of transnational corporations take a variety of forms and are carried out through a number of different channels. Technology may be embodied in the form of capital goods, such

as machinery, equipment, and physical structures; or it may be disembodied in such forms as industrial property rights, unpatented know-how, management and organization, and design and operating instructions for production systems. Foreign direct investment has traditionally been one of the most important channels of technology transfer as it involves the physical relocation of entire production systems, combining in a single package capital goods and a number of the forms of disembodied technology. Since the 1970s a number of other channels have grown rapidly in importance; these include joint ventures, licensing and other contractual arrangements, and turnkey projects. In a joint venture, the contribution of a transnational corporation frequently embraces all the forms involved in the foreign investment package. Licensing agreements, franchising and management contracts usually provide for the use of industrial property rights and/or unpatented firm-specific know-how. The elements usually covered in turnkey projects include the design, construction and operation of a production system as well as the plant and equipment itself.

486. There are indications that the significance of the transfer of technology in both embodied and disembodied forms to the developing countries has been growing rapidly. Exports of capital goods from the OECD countries to the developing countries grew from under $17 billion in 1970 to over $122 billion in 1980, an annual average growth rate of 22 per cent, which is considerable even after allowance is made for inflation. It is estimated that receipts of OECD countries from developing countries in the form of royalties and fees and remuneration for technical services grew at an annual average of 15.6 per cent during the 1970s, from $610 million in 1970 to $2,620 million in 1980, a slightly higher growth rate than that of foreign direct investment outflows. 58/ Such payments may be compared to the total current account deficit of the developing countries, which amounted to $83 billion for the non-oil exporters among them in 1979. Hence, technology-related transactions are substantial both in the overall transactions of transnational corporations and in the balance of payments of the developing countries.

487. The effective contribution of transnational corporations to industrial performance through technology transfer requires more than the mere physical transfer of capital goods and software to the host economy. The transfer should lead to genuine assimilation of the technology by the recipient enterprise and the host economy generally, and it should help to strengthen indigenous technological capabilities. Such assimilation and development may be defined to mean the internalization of the knowledge and skills needed to operate the production system, and more generally a learning process leading to the development of capabilities for adapting and modifying the imported technology and ultimately generating indigenous innovations. It is convenient to identify four stages in this process, corresponding to different categories of capabilities:
(i) production engineering (ability to operate and modify existing plants);
(ii) project engineering and execution (establishment of new production capacity);
(iii) manufacture of capital goods (production of embodied technology incorporating new techniques) and (iv) research and development. These capabilities are essential to sustained industrial performance in any country, for they underlie the processes of technique- development and product-development that are necessary for increased efficiency and competitiveness.

488. One of the most important influences on the degree of effective transfer is the channel through which the transfer takes place. Different channels imply different degrees of accessibility of the imported technology for the host

enterprise and host economy, and different opportunities for learning through involvement in the operation and design of imported production system. The specific content of the transaction is also important, as for example in one kind of joint venture the transnational corporation concerned may retain functional control over the technology it supplies, while another might provide for effective acquisition of the technology by the local partner. The channels used for the transfer, and the content of specific transactions, are the result of the inter-play of these corporations' strategies with the strategies of host enterprises (where the transactions are with unaffiliated enterprises) and the policies of host country governments.

2. Intra-firm technology transfer

489. A basic choice to be made by the transnational corporation concerned is that between investment in a wholly or majority-owned subsidiary, on the one hand, and participation in joint ventures or other alternative forms of transfer that involve transactions with unrelated parties, on the other. In Chapter II it is pointed out that generally, the choice between equity and non-equity forms of participation is influenced by the value that the firm and the host Government respectively place on the firm's marketable ownership advantages, and by the costs and benefits of the options that are available for capitalizing these advantages. Where the technology is relatively new and/or highly firm-specific, the evidence is that transnational corporations place a high premium on retaining absolute control over their technology-based advantage through the establishment of wholly or majority-owned subsidiaries; and their bargaining strength to insist on this vis-à-vis host Governments is at its highest. This is evident in the predominance of such industries as electrical and non-electrical machinery, transport equipment and chemical products, in the direct investment made by foreign firms in the manufacturing sector of developing countries. The example of the food sector, which is characterized by the emphasis on product differentiation based on brand names, also shows that technological superiority has to be defined broadly to include control over specific industrial property rights which may confer advantage even in industries not normally thought of as high-technology.

490. Data concerning 329 large transnational corporations for 1977 indicate that foriegn direct investment is concentrated in industries characterized by high and medium research intensity (Annex Table IV.10). There are also indications that the rate of technology transfer to majority-owned affiliates accelerated in the 1970s in certain industries characterized by a high rate of innovation. Econometric research shows that in 1960-1969, of the technologies being transferred to subsidiaries in the developed countries in a sample of chemicals, semiconductor and pharmaceutical innovations, 27 per cent were less than five years old, while the proportion increased to 75 per cent in the 1969-1978 period. 59/

491. It is a common practice for a transnational corporation to use a licensing agreement with a subsidiary in order to codify the terms of certain aspects of technology transfer. Such intra-firm licensing agreements give legal force to the payment of royalties and fees for the use of the parent company's proprietary technology and unpatented know-how and offer an additional route for earning returns on these assets. The agreement may also impose contractual restrictions on the subsidiary's use and disposal of the technology and the resultant products. Data concerning the earnings from royalties, licensing fees and technical assistance by United States and British companies indicate that intra-firm transactions are predominant in this area, accounting for 80 and 85 per cent,

respectively, of the total earnings of the companies concerned; in the case of the United States corporations, the proportion rises to 85 per cent when developing countries are separated from the total (Table IV.8). While such earnings have been growing at a high rate, the growth rate of receipts from unrelated parties has been higher both for United States and for British firms. This is due mainly to the strong upward trend in such payments by enterprises in Asia and Africa, indicating a trend towards the growing importance of the licensing of unrelated parties in these regions. In the case of Latin America, by contrast, receipts from unrelated parties grew at a much slower rate than the total during the 1970s. The reason may be the slower growth rate of the industries in which these receipts mainly orginate. Another reason may be the effect of the host countries' regulations governing such payments.

492. The industry breakdown of such receipts for United States transnational corporations shows a broad correspondence with the distribution of the stock of foreign direct investment in manufacturing. An interesting comparison, however, can be made between these receipts and the total income on direct investments of United States firms received from their affiliates in these industries. The over-all ratio of technology receipts to income from direct investment in the manufacturing sector of developing countries is 19 per cent, but the ratio is as high as 76 per cent in the case of industries making transportation equipment, 35 per cent in those making non-electrical machinery, and 26 per cent in those manufacturing electrical and electronic goods (Annex Table IV.12). These figures show that, in particular industries, earnings from the commercialization of licensed technology can be quite important in relation to declared profits as a source of returns to transnational corporations.

493. Intra-firm transfers of technology by definition do not involve locally-owned enterprises in developing countries as direct recipients of the transfer. In this case, the degree of effective transfer would have to be evaluated in the light of the rate and the extent of the diffusion of imported techniques from the subsidiary to other enterprises. One index would be the gradual appearance of imitative competition by local enterprises that has the potential for eventually eroding the competitive advantage of the transnational corporation concerned. The latter's expectations are that, to the extent that it takes place, the process of erosion will take sufficiently long to ensure adequate levels of profitability on the original technology and to provide the opportunity to introduce a new generation of innovations when the competition becomes a major threat to established profits. It was noted above that subsidiaries of transnational corporations account for a high and, in many instances, growing proportion of industry sales in the countries receiving the bulk of foreign direct investment in manufacturing. This might indicate a failure of the diffusion process, though it could also be due to a high rate of change in the technology employed by the subsidiaries which enables them to stay ahead of competing local enterprises.

494. Similar considerations govern the technological behaviour of subsidiaries of transnational corporations in the host countries. Typically, these subsidiaries do not engage in any substantial research and development activities within developing countries. Links that are established by a subsidiary with the local scientific and technological system, such as R & D centres and engineering firms, are limited to the performance of secondary tasks which do not endanger the subsidiary's control or the modular process or the product technology. Additional protection is afforded by the operation of the industrial property system.

Table IV.8. Fees and royalty receipts a/ by the United States: Intra-firm and unrelated party transactions

(Millions of dollars)

	1960	1969	1970	1978	Compound Annual rate of growth 1960-69	1970-78
All countries	650	1 894	2 203	5 417	12.6	11.9
Intrafirm	403	1 393	1 620	4 362	14.8	13.2
Interfirm	247	501	583	1 055	8.2	7.7
All developing countries	162	426	473	972	11.3	8.3
Intrafirm	137	364	407	825	11.5	8.1
Interfirm	25	62	66	147	10.7	10.5
Latin America	116	287	311	404	10.6	3.4
Intrafirm	96	245	264	323	11.0	2.6
Interfirm	20	42	47	81	8.6	7.0
Non-Latin American developing countries	46	139	162	568	13.1	17.0
Intrafirm	41	119	143	502	12.6	17.0
Interfirm	5	20	19	66	16.6	16.8

Source: UNCTAD, "Legislation and regulations on technology transfer: empirical analysis of their effects in selected countries", 28 August 1980.

a/ Excluding film and TV tape rentals.

495. Host countries have shown concern regarding the impact of limited diffusion on reducing competition and strengthening concentration in the market structure of the industries, which could imply that the benefits of technical progress are not passed on to the consumer in the form of lower prices but are rather internalized by the corporations in the form of higher profits. Limited diffusion as well as lack of local R & D activity also limits local participation in the technology transfer process and thereby inhibits assimilation. One measure that has been instituted to mitigate these effects is registration and regulation of licensing agreements (see Chapter III). Another measure has been promotion of joint ventures between domestic enterprises and transnational corporations, which is considered next.

3. Joint ventures

496. In principle, joint ventures offer greater opportunities for the effective transfer of technology to the host economy, since domestic partners share in the ownership and possibly the management of the enterprise. In practice, this is subject to two qualifications. First, transnational corporations have shown a greater willingness to agree to joint ventures where any loss of control over the technology would be less costly, for example, where the technology is more mature, less firm-specific and not changing very rapidly. A study of United States firms in 1976 showed that joint ventures abroad were least common in food processing, pharmaceuticals, office machines, and computer industries; they occurred much more frequently in the non-ferrous metal, plastics, textiles and apparel, and industrial chemical industries. 60/ Secondly, a great deal hinges on the specific terms and conditions of the joint venture agreement. The transnational corporations concerned may be able to retain control over technology-based advantages by tight licensing agreements which limit the local partner's access to the technology. When such agreements are combined with a management contract that vests full responsibility for management in the foreign partner, the role of the local partner may be effectively limited to that of shareholder.

497. Host governments and local partners can adopt strategies to increase local participation in the transfer process and enhance effective technology transfer. Some Governments use the leverage provided by the right to grant or refuse access to the domestic market in order to insist on joint ventures with local capital as a condition of the entry of a transnational corporation and then regulate the terms of licensing agreements and other contractual arrangements in such a way as to strengthen the bargaining power of local partners vis-à-vis the transnational corporation. To this end, many governments have drawn a distinction between industries that are export-oriented, the export markets being controlled by the transnational corporations in question, and those that supply mainly the local market, where the government's bargaining power is greater. For example, the policy of the Republic of Korea between 1973 and 1980 was based on such a distinction, and produced perceptible effects on the degree of local involvement in new projects undertaken with foreign participation. 61/ The effects of such policies can be seen in the study of United States firms cited above, which shows that there are some industries - mainly electrical and electronic goods - where the incidence of joint ventures is much greater if production is domestic-market-oriented than if it is export-oriented.

498. In highly capital-intensive industries which use very complex technology, governments of developing countries have also made use of the participation of State enterprises in joint ventures with transnational corporations as a vehicle for facilitating technology transfer. An outstanding example is Brazil, which in 1981 had at least 69 such joint ventures, the majority in the petrochemical, heavy machinery and heavy metallurgical industries. 62/ Sixty per cent of these also involved local private enterprise. The policy was pioneered in the petrochemicals sector by the State enterprise Petroquisa which sought foreign equity capital participation as a means of securing technological inputs for large petrochemical plants. 63/ Much of the foreign share capital in these projects was taken up in the form of engineering services and process know-how, and the foreign partner frequently also had contracts for the supply of technological inputs after the start-up of the plant. Transfer of the capabilities to design and engineer a new petrochemical plant and access to the foreign partner's innovations over a ten-year period were integral elements of the joint venture agreement in one model case that

was studied intensively. 64/ The relative success of these projects led to the extension of the strategy to the capital goods industry and the basic raw materials industries as well as other industrial sectors, through the establishment of specialized financing agencies by the National Development Bank.

499. The Brazilian experience shows that the relative bargaining power of governments may be stronger in relation to firms which are not the established leaders in the industry concerned and which are anxious to gain access to new markets. The Petroquisa "model" agreement was made with a French enterprise which is not one of the dominant suppliers of petrochemical technology and which has a diversified business structure embracing other product groups. This enterprise was in the end willing to come to an agreement involving a far greater degree of technology transfer than was offered by the dominant firms which were also bidding for the contract, presumably because the costs of losing control over the technology were smaller, and the benefits of gaining access to the large Brazilian market greater, than for the dominant firms. More generally, a recent study has observed that even in high- technology industries, such as the computer industries companies that are just behind the major transnational corporations in their industry position and are pursuing "catch-up" strategies, have shown much greater readiness to engage in joint ventures with local partners than the dominant corporations. 65/ This was also found to be the pattern for individual companies in the automobile, tyre, and consumer electronic industries. Hence, careful study by a host government of the relative position of different transnational corporations can enhance its bargaining power and success in utilizing joint ventures as a channel for the effective transfer of technology.

4. Licensing of unrelated enterprises

500. Transnational corporations frequently make licensing agreements that are not associated with foreign direct investment and joint venture arrangements, i.e., with enterprises with which there are no ties of ownership at all. In the developing countries, this implies agreements with domestic private and State enterprises for the use of industrial property rights and unpatented know-how, which may be accompanied by various kinds of technical assistance. From the point of view of the transnational corporations, there are a number of reasons why this channel may be adopted for the commercialization of technological assets. One major reason is traceable to the policies of host developing countries themselves, some of which have restricted foreign equity ownership in certain sectors or over-all. Whether equity participation is available as an option or not, transnational corporations are more likely to license unrelated parties in cases where the risks of losing control over the technology can be minimized, or if not, where the costs of losing it are low.

501. In some industries, especially in the consumer goods sector, a typical licensing agreement may contain contractual terms that establish and perpetuate the dependence of the licensee on the licensor for trademarks, components and other inputs, access to foreign markets, technical improvements, and other elements of technology. The terms of a licensing contract may limit the licensee's freedom to become a serious independent competitor of the licensor, and also create a "locked-in" source of "auxiliary business" for the licensor in the form of sales of components and further technology. Such features are associated with restrictive clauses and practices in such agreements, and in recent years regulations enacted in host countries have made it increasingly difficult for licensees to negotiate agreements that formalize such dependence. However, in such matters as the supply

of inputs or access to markets, licensees may still tacitly acquiesce in or even welcome such terms.

502. Where the product in question has reached the mature, competitive stage of its product cycle and especially where the transnational corporation concerned knows that an imminent innovation will make the technology effectively obsolete, it is also more willing to license since it becomes less necessary to retain control over the technology and the costs of losing such control are smaller. 66/ In addition, it has been found that highly diversified firms with a wider-than-average range of products have a greater tendency to choose licensing rather than foreign direct investment because the limitations of their financial, managerial and marketing resources may make it difficult to engage in foreign production through such investment in all the available product lines. For much the same reasons, smaller firms with limited financial and foreign marketing capabilities may also have a greater propensity to use licensing as a mode of involvement in operations abroad. 67/

503. Data from some host developing countries show the impact of policies towards foreign equity investment on the intensity of licensing between transnational corporations and domestic unrelated enterprises. In the Republic of Korea, the number of licensing agreements entered into by locally-owned firms increased steeply after the introduction in 1973 of policies which restricted foreign investment to areas where it would not compete with domestic enterprise; from 1973 to 1980, local firms accounted for 74 per cent of all licensing agreements made. 68/ In Malaysia also, the number of new licensing agreements increased in the 1970s, after the introduction of measures to increase local equity participation in new projects. 69/ Most of the agreements are probably with joint ventures and fully locally-owned enterprises. On the other hand, in Singapore, where few restrictions have been placed on foreign direct investment, licensing agreements are concentrated among majority foreign-owned companies and joint ventures, and the incidence of licensing in this group is much higher than for wholly or majority locally-owned enterprises (only a few of which report licensing agreements). 70/ In Brazil, where policies have not been very restrictive, licensing agreements entered into by subsidiaries of transnational corporations have generally accounted for less than 20 per cent of all agreements during the 1970s, suggesting that licensing is a channel supplementary to foreign direct investment for the participation of foreign corporations in the economy. 71/

504. Data on the industrial distribution of licensing indicate that among the industries with most licening agreements are the electrical, electronics, chemical and metallurgical industries. The pattern appears to vary from country to country according to the level of industrial development and the market orientation of industrializaton (Table IV.9). In Brazil, the machinery and transport equipment industries are important areas of licensing as well as the above three industries. The electrical and electronics industries are relatively more important in the Republic of Korea and in Malaysia, perhaps because of their stronger export-orientation. By contrast, in Trinidad and Tobago and Guyana, two relatively small countries where industrial development is limited to light industry supplying mainly the domestic market, licensing is more important in the food-processing, textiles, metal products and light chemicals industries.

505. Licensing can be an effective channel for technology transfer and can contribute to the growth of industrial capacity where (i) the technology supplied is basic process know-how that is not generally available either in identical form

Table IV.9. Selected developing countries: licensing agreements by sector

	Brazil 1970 a/	Republic of Korea 1980 b/	Malaysia 1970-79 c/	Trinidad-Tobago 1976 d/	Guyana 1976 e/
Electrical and electronics	13.6 f/	21.4	28.0		
Chemicals	9.8	19.9 g/	13.0	15.4	36.0
Metallurgy and metal products	10.7	41.1	13.0	42.3	16.0
Machinery	16.3		n.a.		
Transport equipt.	12.7	n.a	n.a.		
Textiles	6.8	4.0	5.0	19.2	--
Food processing	1.5		7.0	15.4	40.0
Pharmaceuticals	9.6	13.6	n.a		
Non-metallic mineral products	4.4		11.0	3.8	8.0
Pulp and paper	0.6		5.0	3.2	--
Others	14.0		18.0	0.7	
	100.0	100.0	100.0	100.0	100.0

a/ Percentages of 1,402 contracts for technical assistance, patents and trademarks in manufacturing industry only. Source: E.A. Guimaraes, P.S. Malan, and Jose Tavares de Araujo Jr., "The 'New Forms' of Foreign Investment in Brazil", Paris: OECD Development Centre, 1982, Appendix B, Tables 3,4.

b/ Percentages of 1,726 Licensing Agreements (including 1,583 in manufacturing) approved by Government in the years 1962-80. Source: Bohn Young Koo," Status and Changing Froms of Foreing Investment In Korea", Paris: OECD Development Centre (mimeo) 1982, Table 34.

c/ Percentages of Technical and Licensing Agreements approved by Government, 1970-79. Source: Siew Ee and Kulasingham, "New Forms of International Investment: The Malaysian Experience", Paris, OECD Development Centre, (mimeo) 1982, pp.59 60.

d/ Percentages of 26 licensing agreements in manufacturing industry. There were also two agreements in mining/in construction, and three in transport and communictions. Source: M.A. Odle, "Technology Leasing", Social and Economic Studies, Vol. 28, No. 1, March 1979.

e/ Percentages of 25 agreements in the manufacturing sector; there were also one in distribution and one in transport and communication. Source: as for Trinidad-Tobago.

f/ Includes communication equipment

g/ Includes petroleum.

or as close substitutes; (ii) the licensing agreement provides for, or at least allows, assimilation of the know-how by the user; and (iii) the recipient enterprise takes conscious and deliberate steps to bring about assimilation by its own personnel and institutions. Assimilation will not come about as the by-product of other aspects of technology transfer, nor will it necessarily occur merely because the terms of a licensing agreement allow it or even specifically provide for it. Recipient enterprises need to see it as a specific objective of a licensing arrangement, both as regards the content of the agreement and the nature of the ensuing relationship. Effective transfer implies extra initial costs for the recipient enterprise, incurred as a result of the greater effort needed to prepare for negotiations and for the negotiations themselves, and of the extra investment in human and material resources needed to absorb the technology and develop local capabilities. The rewards are higher operating efficiencies resulting in lower unit costs, and a higher rate of product development resulting in increased market competitiveness. 72/

506. There are several examples of cases where recipient enterprises and host countries have successfully used licensing arrangements with transnational corporations to effect technology transfer and develop indigenous capabilities. The successful implantation of foreign technology into the Japanese petrochemical industry and its increasing capacity to generate innovations in the 1960s were largely effected through a policy of selective and controlled licensing supported by indigenous technological efforts at adaptation and R & D. 73/ This has been a general feature of Japanese policy. A similar policy was followed successfully in the case of the post-war development of the Yugoslav copper industry. 74/ Within the developing world, the policy of the Government of India has been strongly oriented in this direction, and controlled licensing has been an integral component of the development of a wide range of capital goods industries. 75/ In the Republic of Korea, domestic enterprises have exhibited a rapid growth of technological capabilities in a wide range of industries, including transport equipment, electrical machinery and applicances, metal and nonmetallic mineral manufactures, as well as textiles, clothing, footwear and plywood. 76/ Licensing agreements have been one of a number of different means used for gaining access to foreign technology. The strong performance of domestic enterprises in these industries can therefore be attributed partly to the successful use of licensing arrangements as a channel for effective technology transfer.

507. Careful studies of successful transfer and assimilation show that the mastery over imported technology is acquired in the course of activities carried on by the recipient enterprise after the conclusion of the formal agreement. Government intervention in the negotiation of a licensing agreement can be of great importance to the ability of recipient firms to undertake technological efforts during the phase which follows the commencement of operations using the imported technology. State intervention in the negotiating phase enhances the bargaining position of the recipient firm. The experience of countries which have made the approval of licensing agreements conditional on compulsory registration shows that the position of domestic parties was strengthened in negotiation to secure terms that would fulfil the conditions governing approval (eliminating restrictive clauses, reducing royalty levels and duration of agreement, etc.). 77/ In Mexico, for example, when an agreement is rejected by the Government agency concerned, in many cases the standard procedure is to provide advice to the domestic firm if the agreement is to be renegotiated. 78/ This indirect participation of the State in the negotiating phase makes it possible for the policy instrument to be applied with flexibility and at the same time to set the basis for a faster and more efficient process of assimilation.

508. Regulations in India go beyond the elimination of restrictive clauses and the control of the costs and the duration of licensing agreements, to deal with some aspects affecting the pace of assimilation of imported technology. As part of the approval of industries covered by the Industries (Development and Regulations) Act of 1951, guidelines were prepared which domestic entrepreneurs were expected to follow in their negotiations with foreign parties. 79/ Some of these guidelines had major implications for the assimilation process that was to follow: local entrepreneurs were to explore alternative sources of technology, evaluate them from a technico-economic point of view and state their reasons for preferring the particular technology; the Indian party was to be free to sub-license the technical know-how, product and engineering design covered by the licensing agreement to another Indian party on terms to be agreed by all parties (including the supplier of technology); suitable provision was to be made for the training of Indians in the fields of production and management; it was stated to be desirable that registered Indian engineering design and consultancy organisations should be associated from the start in the evaluation, selection and negotiations conducted for the transfer of technology (this is probably the best way of enhancing the capacity to assimilate imported technologies); and lastly, adequate arrangements were to be made for R & D, engineering design, training and other measures for the assimilation and adaptation of the imported technology. It should be noted, however, that some enterprises may find this degree of regulation excessively bureaucratic, and that such arrangements do not necessarily provide for the recipient industries to continue receiving "state-of-the-art" technology from abroad once transfer has been effected.

5. Turnkey contracts

509. Under a turnkey contract, the contractor accepts responsibility for all the tasks associated with the design, construction and commissioning of a production facility. Generally, this responsibility includes the supply of technology and know-how, basic design and engineering, supply of complete plant and equipment, design and construction of civil works, complete erection of plant and equipment and commissioning of the total plant facilities up to the stage of start-up, including the initial training of process operators.

510. Transnational corporations which enter into turnkey contracts are usually international engineering companies which seldom take an actual ownership interest in the facilities they are constructing. In the words of one author:

> "they do not create appropriable economic rents by being operating companies. Their economic rents are rooted in their ability to design, engineer and build complex plants. They have logistical skills of a different type than those of an operating company like General Motors. Their forte is that of bringing together what have come to be called temporary systems, i.e. they can marshal large groups of engineers, construction workers, machinery, technicians and managers to undertake projects which are one or a few of a kind. When the project is completed it is someone else's technology. They do not transfer their own technology. They only transfer the end result of that technology, i.e. the plant or construction project. Thus, they normally do not need ownership. licenses, and the like to protect the technological know-how that yields them their economic rents. An engineering or consulting contract is sufficient protection because the technology that can replicate the end product resides primarily in people rather than in physical capital." 80/

511. Hence a firm which makes a turnkey contract need not carry out all the activities for which it is contractually responsible; it is at liberty to subcontract various portions to other suppliers. The main contractor's special ability derives from a knowledge of the market for the component parts of industrial plants, from internal design engineering skills, and from the capability to establish a network of relations with suppliers needed to transform the engineering design into a fully operational system.

512. Turnkey contracts grew rapidly after the oil-price increases in the early 1970s had generated huge capital surpluses in many oil-exporting developing countries, which they sought to invest in large-scale industrial projects. The growth of turnkey business is also partly responsible for the rapid growth of capital goods exports from the developed to the developing countries, at a rate which averaged 22 per cent between 1970 and 1980. Data for the leading industrial countries for the middle 1970s show that the developing countries account for a high and sometimes a majority share in terms of the total value of contracts made. 81/ In addition, within the developing world itself, there is a relatively high concentration of turnkey contracts in the Middle East, the rest of Asia, and Africa, by comparison with other alternative forms of involvement of transnational corporations, such as licensing and joint ventures, as well as compared to foreign direct investment itself. The socialist countries also account for a significant proportion of the total, while OECD countries are relatively unimportant customers for these contracts. This type of arrangement may therefore be especially important in transactions between transnational corporations and State-owned enterprises, in circumstances where other forms of involvement are not realizable, and where the host enterprise or the host government is able to defray the expenditure from capital surpluses or with the resultant products.

513. Data concerning the distribution of turnkey contracts over different industries are available for four leading home countries (France, the Federal Republic of Germany, the United Kingdom and the United States) for various years in the early and mid-1970s. 82/ They show that the most important industries are chemicals, energy (including thermal, hydro-electric and nuclear energy plants), metallurgy and iron and steel, hydrocarbons, and construction materials such as cement and glass. Other industrial areas where turnkey contracts have been employed, though on a lesser scale, include textiles, food-processing, paper, water-treatment, and mining. Thus there is a pronounced bias towards the use of turnkey contracts in heavy, basic-materials types of industries.

514. Since turnkey contracts by their nature do not imply a long-term relationship with the local partner, the extent to which they effectively transfer technology and contribute to industrial capabilities depends on the terms and content of the investment and commissioning stages of project execution. The traditional type of contract did not necessarily provide for the training of local personnel in necessary operating and maintenance skills, or for dealing with production difficulties arising in the early stages of production in the plant constructed. As a result, serious difficulties often occurred in the post-commissioning stage of plant operations, particularly in developing countries if the owner/purchaser was unable to mobilize adequate knowledge and experience in plant operations. In response to this, some developing countries have made a major variation in the structure of turnkey contracts in order to entrust the contractor with additional responsibilities beyond the stage of commissioning and start-up of the production facility and extending to the stage of initial operations up to a specified point in time. Such contracts are known as "product-in-hand" agreements: they should

involve an extensive and effective transfer of technology, for it is a prerequisite that the design of the plant, its adaptation to domestic conditions and the training of local staff must be planned and implemented in such a way that the client will be able to operate the plant independently. Another form of turnkey contract, the "market-in-hand" agreement, requires the contractor to give assistance in, or in some cases to take responsibility for, the sale of at least part of the project's output. Allied cases are those where "buy-back" provisions in the contract require the supplier to take payment directly in the form of the output of the project. 83/

515. Another aspect of the relationship between turnkey contracts and technology transfer concerns the practice of combining all tasks and responsibilities into a single package which is the responsibility of a foreign contractor. This practice has two possible drawbacks: it can result in inappropriate design and choice of technology, because of the foreign contractor's ignorance of local conditions, and it does not maximize the benefits of technological learning by local personnel through participation in design, construction, and commissioning activities. These considerations have given rise to the strategies of breaking up, or "unbundling", the technological package.

516. Two examples of case studies of the crucial design engineering stages of industrial investment projects show that initial design conditions affect the technical performance of a plant after commissioning. 84/ In the case of one turnkey project, the initial design conditions severely impaired the productivity of the plant's engineering efforts after start-up. In another case, a State enterprise had made a contract concerning process technology and basic engineering on the one hand, and for detailed engineering, construction and start-up, on the other: the design conditions made an allowance for the contracting firm's engineering efforts to expand plant's capacity (exceeding 25 per cent of nominal contracted capacity in just five years). These efforts also resulted in reductions of specific input costs, maintenance costs and unit power costs. Besides, the minor technical changes involved did not displace manpower and in the end they reduced capital investment per unit of capacity. One key result of this study is that it discloses the existence of two types of learning experiences underlying the process of technological assimilation: learning experience at the plant level after the start of production, and experience at the design level. Learning at the design level offers the possibility of assimilation at a faster rate; domestic participation must be assured in the different stages of the design process. The rationale of the "unbundling" of the technological package is found in this learning experience.

6. Conclusions

517. The extent of the contribution of a transnational corporation to the industrial performance of a host country through technology transfer is affected by a number of factors: the channel used for technology transfer, the level of development of the host country's technological infrastructure, the efforts made by domestic enterprises at assimilating the imported technology, and the nature of the host country's policies. Parent-subsidiary technology transfers keep the technology under the control of the parent corporation and, where this is associated with strong competitive advantages over domestic enterprises, the host economy's opportunities for assimilating foreign technology are limited. Similar limitations are evident when the terms and content of licensing agreements and turnkey contracts between transnational corporations and local enterprises maintain

the former's control over the technology and limit local participation in the transfer process.

518. However, there are many indications of a positive contribution by such corporations to the development of local technological capabilities, especially in transactions with domestic enterprises in developing countries. The contribution is noticeable in cases where licensing is controlled and highly selective, where turnkey contracts are unpackaged to allow the participation of local technical and engineering personnel, and where the local partner makes a deliberate effort to maximize learning based on the operation of imported technology and to invest resources in the development of local capabilities.

519. In industries where the technology is complex, advanced and highly firm-specific, the bargaining position of developing countries is weakest and the costs of assimilating the technology are greatest. Nevertheless, even in such industries careful search among alternative suppliers, followed by well-prepared bargaining, can yield favourable results. The opportunities for developing countries are the greater the less complex and firm-specific and the more mature the technology in question. Moreover, effective assimilation of imported technology in these areas can form the basis of a learning process that builds up capabilities and creates an infrastructure for acquiring the more complex types of technology and for dealing more effectively with the transnational corporations.

F. Transnational corporations and industrialization: policy issues

1. Introduction

520. A discussion of policy issues concerning the participation of transnational corporations in the industrialization of developing countries must take into consideration the specific characteristics of the major types of industrialization strategies adopted by developing countries over the last three decades. This section seeks to illuminate the strategic policy considerations arising from the participation of such corporations both in import-substituting and in export-oriented industrialization strategies. In particular, it focuses on the formulation of policy measures designed to take maximum advantage of the potential contribution of these corporations to the industrialization efforts of host developing countries. The subject is discussed in the light of the fact that the nature and extent of their contribution will differ according to the type of industrialization being pursued.

521. Industrialization strategies and policies reflect the objectives and measures adopted by a country to enhance the structure, enlarge the size and promote the growth of its manufacturing sector and to secure adjustments of the sector as a consequence of changing domestic and external economic conditions. The formulation of specific programmes and policies is guided by the way in which the country concerned perceives its industrial objectives, which may include the development of particular industries to meet specific needs, for instance, production of basic goods, including food, clothing and building materials, or of intermediate and capital goods - e.g., chemicals and engineering goods - essential for the production of consumer and producer durable and non-durable goods. Industrial objectives may also reflect the country's perceptions of the degree to which its manufacturing sector or economy at large should be regionally and/or internationally integrated.

522. The details of industrialization strategies, industrial policies and measures relating specifically to transnational corporations obviously vary among countries. It is possible, however, to identify the major traits of three broad types of industrial strategies which developing countries have adopted during the last three decades. They are: (i) a first phase of import substitution in which local production of non-durable consumer goods is protected against foreign competition by the erection of high import tariffs; (ii) a second phase of import substitution in which intermediate process industry goods and differentiated capital goods and consumer durable goods are protected by high tariffs; and (iii) a phase of export promotion in which outward oriented industrial activity is encouraged by the award of incentives, tariff liberalization, and other measures.

523. An analysis of this nature must of course recognize that transnational corporations are market-oriented. Their goal is not primarily to fulfil development objectives of countries but to earn profits. Furthermore, transnational corporations and their behaviour are a function of production and market characteristics in developed countries. These considerations affect the character of the contribution that these corporations can make to the industrialization of developing countries; and what are often perceived as effects specific to such corporations often stem from the nature of the operations of private corporations in a market economy or are governed by the general characteristics of a specific industry or country.

2. Import substitution and the participation of transnational corporations

524. The import substitution strategies of the first phase generally promoted, behind high import tariffs, local production of non-durable consumer goods. Very often these were products like food and beverages which transnational corporations had previously exported to the countries in question. As their exports became uncompetitive because of the newly-instituted import barriers, many of these corporations established local production. Owing to their entrepreneurial capability and their technical and marketing knowledge, they had a clear competitive advantage over whatever local firms existed or could have come into being and in most cases the foreign companies established wholly or majority-owned subsidiaries. In many cases, therefore, their participation obstructed the development of any indigenous production capability. In retrospect, disappointment was expressed regarding their participation; they were criticized for importing too much, exporting too little, establishing too few linkages to local corporations and not transferring technology. In short, they were criticized for not contributing to the achievement of the host country's development objectives. Some of these perceived effects of their participation are due to the nature of import-substituting industrialization itself. Local production of previously imported goods, whether or not the production is undertaken by a transnational corporation, sets up demands for imports of intermediate goods, and the possibility of establishing linkages with local firms is frequently hindered by the lack of local supplying industries. Exports tend to be discouraged by the heavy emphasis of policies on production for the domestic market.

525. It seems doubtful whether production of basic consumption goods, which consist mainly of low technology, standardized and labour-intensive products, required extensive equity participation by transnational corporations. This is not the type of production in which these corporations with their competitive advantage in high technology, differentiated goods can make their greatest contribution. Also, since

they cannot generate any pronounced firm-specific competitive advantages in the production of such relatively undifferentiated goods, these corportions, to the extent that they participate at all at this stage, should, it seems, be prepared to consider joint ventures or licensing agreements, given the availability of local partners.

526. Not all developing countries have experienced this stage of import substitution in the same way. Some countries adopted first-stage inward oriented industrialization for a relatively short period during which they concentrated on the production of goods in which they had basic comparative advantages. Thereafter, they changed to an export-oriented stage of industrialization. It can generally be said that the countries which followed this pattern were quite successful in expanding their exports of labour-intensive goods, including apparel, during the 1960s and 1970s. Although for a time and under specific conditions, foreign corporations, many of them Japanese, invested in a few of these countries, notably in the textile/apparel industry, the export growth of these countries and of this industry was achieved largely by local corporations.

527. As regards possible alternatives to transnational corporations based in developed countries, it is conceivable that companies which are based in developing countries and which possess certain resources, including entrepreneurial and management resources, may fill the role, especially in countries following a first-stage inward-oriented policy of industrialization, where the importance of the production of differentiated goods is relatively low. In the production of differentiated goods and in production where process technology is used intensively, such companies do not at present offer a real alternative because they are few in number and their technological sophistication is too low. Such companies are active mainly in the textile/apparel and construction industries and their investments are often made in a regional context.

528. After some experience with import-substitution of the first phase and aware that continuing industrialization and economic growth would demand importing an increasing volume of intermediate, capital and consumer durable goods, several countries - notably large Latin American and some East Asian countries - initiated import-substitution schemes of the second phase in the 1960s. These schemes, which have continued to a varying extent until the present time in many countries, called for the establishment of local process industry (including chemicals, petrochemicals and metals), and for the local production of differentiated goods, notably capital goods and consumer durable goods. Especially in Latin America, it was felt that such goods should be produced domestically and supply the local market, inasmuch as manufactured exports were uncompetitive.

529. As in the first stage, developing countries erected substantial tariff barriers with the intention of protecting local infant industries until these became internationally efficient. Once again, transnational corporations, which had accounted for most of the earlier imports of these goods, began to produce them locally behind the protective tariff barriers in order not to be excluded from the markets.

530. In both the process and the differentiated goods industry sectors, these corporations had clear competitive advantages over local firms in developing countries. However, the nature and characteristics of these advantages differed between the two sectors and those differences affected the different forms of involvement of transnationals.

531. In the differentiated producer and consumer durable and non-durable goods industries, the strength of the competitive advantages is embodied in product technology based on accumulated managerial experience and technical and marketing knowledge. The resources required to undertake such activities, including research and development, were, and still are, limited in developing countries. Because of this imbalance, transnational corporations had considerable bargaining strength in negotiating the form of their participation in this kind of production. In most cases, what happened was that fully or majority-owned subsidiaries of such corporations dominated the differentiated goods industries. In some cases, as local firms acquired production capability, joint ventures or licensing agreements were established in these industries.

532. In the heavily capital-intensive process segment of the manufacturing sector (that is, chemicals and metals), the competitive advantage of transnational corporations was based largely on their access to process technology. However, in this area their advantage over local firms was not so pervasive as the advantage they enjoyed by reason of their access to product technology in the differentiated capital goods industries. In general, the technology used in capital-intensive process industries - notably for making bulk chemicals as opposed to fine and specialty chemicals - is rather standardized and generally available. It is therefore relatively easy to license, although complementary know-how may still be of importance. As a consequence, the competitive strength of transnational corporations with respect to local firms in developing countries has been less pronounced in the capital-intensive process industries, and their bargaining strength has been affected accordingly. Very often, they agreed to joint venture or licensing arrangements with local firms. Other factors have helped to increase host countries' bargaining strength in negotiating with transnational corporations on the form of their participation in the process industry segment of production. In the production of petrochemicals, for example, because these corporations needed access to oil and gas reserves under the control of host governments, the latter's bargaining capability was greatly strengthened. As a result, transnational corporations have often agreed to production sharing or marketing agreements in lieu of wholly or majority-owned ventures.

533. Many developing countries considered the heavily capital-intensive process industries, such as chemicals and steel, as indispensable to the industrialization process, and some established parastatal corporations in these industries. Because of the substantial capital risk involved in such ventures and the limited market of developing countries, transnational corporations were inclined to share ownership with local partners, including State-controlled enterprises.

534. The foregoing remarks about the implications of an industry's production characteristics for the form of participation by foreign corporations help to explain the often noted phenomenon that Japanese companies appear more amenable than those based in the United States to accepting joint-venture or contractual arrangements with local firms in developing countries. Investments by Japanese companies in developing countries tend to be heavily concentratedin standardized goods, in particular textiles/apparel, or basic process industries, like chemicals and metals, where transnational corporations enjoy few firm-specific competitive advantages. As noted above, in such cases transnational corporations are likely to favour joint ventures and non-equity arrangements. By contrast, United States corporations have invested predominantly in the production of differentiated goods, where transnational corporations possess a distinct competitive advantage and are therefore prone to establish wholly- or majority- owned ventures abroad.

535. In general, therefore, while developing countries can theoretically choose from among a wider range of alternative forms of participation by foreign corporations, their choice is in practice constrained by the production characteristics of particular industries. And, in industries where the products are highly differentiated, for the foreseeable future the vast majority of local firms do not have the leverage for entering extensively into joint ventures and non-equity arrangements with transnational corporations.

536. The effects of the participation of these corporations in import substitution schemes of the second phase were in many instances remarkably similar to those noticed during the first phase. These included: domination of certain industries by transnational corporations, saturation of markets of the protected industries, a less efficient production structure, and a continuation of imports of intermediate goods coupled with an unimpressive export performance.

537. It is understandable that this should be so, for many of the same factors were at work in both phases. Most developing countries which launched a scheme of inward-oriented industrialization in the second phase had not acquired, during the preceding phase, either the physical or the human resources needed for the capital and skill-intensive production to be promoted during the second phase. Frequently, these countries lacked a sufficiently well-developed economic and industrial infrastructure and industrial tradition, especially in the production of goods being promoted, and a sufficiently developed segment of ancillary industries which could be linked as suppliers to the nucleus industries producing chemicals and capital goods. Moreover, owing to the small size of the markets of most developing countries, corporations found it difficult to achieve vertical economies of scale in the highly capital-intensive process goods industries. And in other industries, including automobiles and machinery, horizontal economies of scale were likewise difficult to realize.

538. As both cause and effect of the persistent production inefficiencies, tariff protection of local industries became a more or less permanent feature of many import-substitution strategies in the second phase. Both foreign firms and local producers had little incentive under inward-oriented industrialization strategies to improve their productivity or to strive for the removal of obstacles to reasonably efficient production in the future. Although production and efficiency improved over time in some countries and in some industries, the basic inefficiency of the production system persisted in many cases.

539. The market structures of promoted industries in developing countries became increasingly oligopolistic, as indeed they had also become in developed countries. A few corporations - almost always transnationals because of their clear-cut competitive advantages - dominated specific types of production. These corporations came to account for a large share of the imports of raw materials, intermediate goods, machinery and technology used in the production of import substitutes. The almost complete focus on inward industrialization in schemes of the second phase by its nature discriminated against export activities. At the same time, foreign exchange was urgently needed to pay for imports of intermediate goods. The export record of the foreign participants in this phase of import substitution was generally poor, although there was some improvement in certain countries and for certain products. Apart from the fact that they pursued a less efficient production in developing countries, the propensity of transnational corporations to export was negatively affected by the fact that they had affiliates in most other developing countries pursuing the same import substitution scheme and that they already had more efficient production in the developed countries' markets.

540. The foregoing passages described the drawbacks of the participation of transnational corporations in import substitution schemes of the second phase; however, their participation may also have had some positive effects. First, a distinction should be drawn between quantitative and qualitative contributions of such corporations. The former are contributions to industrial capacity (as measured by exports and employment generated, etc.), while the latter are contributions to the very ability of a country to produce, that is, the industrial capability. To focus solely or primarily on the quantitative contribution to industrial capacity can be misleading since this contribution can be large but still make no major contribution to the establishment of a long-run self-sustained industrial capability in developing countries. Moreover, to expect a major and enduring role for transnational corporations in such fields as employment or exports seems to assume that they would substitute indefinitely for the lack of local industrial capability. Such an assumption does not correspond with the aspiration of most developing countries to establish a self-sustaining manufacturing sector with a balanced participation by local and foreign corporations.

541. Transnational corporations can foster the creation of long-term industrial capability by introducing management and marketing skills to the local industrial milieu and transferring know-how to local firms. Management and marketing skills cannot generally be bought through a technical assistance or service contract at least in the industries protected under schemes of import substitution in the second phase. Rather, management skills are an integral part of foreign direct investments. Besides, the formation of local technological skills depends heavily on training and technology transfer through linkages between the operations of foreign corporations and those of local firms.

542. The potential long-range contributions of transnational corporations to the development of local self-sustaining industrial capability of developing countries can only be realized, however, if carefully conceived policies are adopted by the host governments and if the local absorptive capacity is adequate. If these conditions are not fulfilled, transnational corporations will not accept the costs of ensuring that their activities contribute to the achievement of industrialization objectives.

543. The outcome of the participation of such corporations in import substitution schemes of the second phase raises some important considerations for the countries now in this stage or about to enter it. It seems that countries which followed a more selective, flexible and dynamic approach towards their industrialization and the participation of transnational corporations are today better positioned to undertake production that is internationally more efficient. The relevant issues here are the balance between protected and non-protected industries, the duration of inward-oriented policies, the state of advancement of national technological capabilities and the extent of participation by these corporations.

544. One of the most difficult issues in implementing import-substitution industrialization schemes in the second phase is what should be the right balance between foreign and local corporations as participants in the manufacturing sector. It is clear that the participation by transnational corporations should be selective. However, for the purpose of specifying where and how they should be allowed to operate, a careful inventory of local material and human resources is required as well as an estimate of the know-how, finance and market access needed for the achievement of the objectives of a country's industrialization plan. As

noted earlier, availability of raw materials and the existence of a national technological capability enhance the ability of host countries to extract advantages from the participation of foreign companies and condition the form of that participation. Similarly, the choice of the type of production has consequences for the degree to which host countries can be selective as to the extent and type of participation of these companies. Although a host country can take measures to improve its own bargaining position vis-à-vis transnational corporations, at least in the area of information and negotiating skills, in the final analysis, it is the country's resources and industrial development ambitions which will determine how these corporations participate.

545. In summary, the relatively advanced production promoted under schemes of the second phase implies a specific role for transnational corporations, in contrast to schemes of the first phase under which there probably are some alternatives. In the context of the second phase, these corporations have assisted developing countries in diversifying their manufacturing sectors away from the production of low-technology and standardized products which had historically dominated their manufacturing production. Under schemes of the second phase, the corporations focused on those industries in which developing countries had been traditionally less active, that is, the production of differentiated capital goods and the production of technology-intensive process industry goods in developing countries. By establishing production capacity in developing countries for these industries, the corporations have also been an instrument in the international restructuring of production. Without transnational corporations, developing countries would hardly have been able to achieve these results so quickly and on such a scale. It is not yet known, however, to what extent the participation of these corporations has contributed and will contribute to the generation of a long-term and self-sustained industrial capability in the developing countries. In other words, it cannot yet be determined whether the perceived costs of their participation have been or will be outweighed by the benefits.

546. The future industrialization of many developing countries depends on the extent to which their inward-oriented industrial base can and will, in the near future, furnish a production structure that is internationally efficient with or without the involvement of foreign corporations. As discussed in the next section, this question is of crucial importance to developing countries that have undertaken or plan to undertake more export-oriented activities.

3. Export-oriented industrialization and the involvement of transnational corporations

547. The constraints on economic growth which resulted from concentrating production on meeting local demand prompted several developing countries to launch export-oriented programmes of industrialization. In the early 1960s, a few East Asian countries initiated such export-oriented programmes directly following first stage import substitution. Several Latin American countries initiated export promotion schemes during the late 1960s and early 1970s without necessarily having dismantled their import substitution programmes completely.

548. The advantages of export-led development are well known, although their realization requires that governments ensure that the market forces work properly. Such a development provides the basic incentive for a country to produce goods in accordance with its dynamic comparative advantage. In the early stages, such an orientation usually favours labour-intensive over capital-intensive types of

production and may therefore enhance the level of employment. Furthermore, export promotion tends to increase both the utilization of capacity and the possibilities of exploiting economies of scale. Finally, additional exports generate the foreign exchange needed to finance the additional imports of machinery and intermediate goods required for the production of exported and other goods.

549. Developing countries have generally attempted to achieve export-led growth by providing subsidies of one kind or another. Import barriers have also been somewhat decreased so as to avoid undue inflation of costs in export industries. Some host countries, largely in Latin America, have established local content rules and export requirements, such as a target share or quantity of output for export.

550. There are important differences between the ways in which Latin American and East Asian countries have carried out export promotion schemes. Most Latin American countries regulate transnational corporations in the use of local and imported inputs. Additionally, several of these countries provide export subsidies to corporations to compensate for the higher costs of local inputs. Furthermore, while these subsidies are intended to promote non-traditional exports, a relatively high tariff is maintained to shelter local production. Accordingly, despite a considerable shift away from import-substitution, in effect the combination of restrictions on the procurement of goods and continued protection of the domestic market has meant that export-oriented producers are still at a certain disadvantage in relation to import-substituting enterprises, as well as relative to exporters from other countries which are able to buy their inputs at lower costs.

551. By contrast, in the East Asian countries, corporations are generally free of restrictions on the use of imported inputs; subsidies are granted for a wider range of industrial activities, and the domestic market is not heavily protected. Generally, it is in the East Asian countries that export-promotion schemes have been most vigorously pursued and in these countries the activity of transnational corporations has been much more export-oriented than in Latin American countries.

552. Discussion of policies towards transnational corporations in this area should distinguish among four different categories of exports: (i) standardized labour-intensive goods; (ii) capital-intensive process industry goods; (iii) differentiated final products; and (iv) labour-intensive goods consisting of components and parts of differentiated goods. By and large, the role of transnational corporations has been of little importance in categories (i) and (ii), of selective importance in (iii) and of major importance in (iv). These differences explain in part the variations noted above in the export performance of foreign companies in East Asia and Latin America.

553. The growth of exports from developing countries during the 1970s was largely attributable to a vigorous expansion of exports of traditional standardized labour-intensive goods, in which domestic enterprises played the leading role. The contribution of transnational corporations to this growth of exports reflects mainly the investments of Japanese firms in a few neighbouring low-wage countries in response to rising labour costs in Japan. In addition, some of the exports of labour-intensive goods, notably textiles/apparel, have resulted from international sub-contracting agreements between local firms in developing countries and manufacturing or trading corporations in developed countries. Thus, the contribution of transnational corporations to the exports of traditional standardized labour-intensive goods has been rather limited.

554. Exports of goods of the capital-intensive process industry of developing countries consist primarily of processed raw materials. Again, the transnational corporations active in this type of export trade are mainly based in Japan. Under the pressure of growing resource shortages at home, Japanese corporations have invested in raw material-rich countries both in Asia (notably in Indonesia) and in Latin America (notably in Brazil) in order to secure a stable and adequate flow of raw and processed materials to their manufacturing plants. For United States-based transnational corporations, such ventures, although important, are less extensive than those of the Japanese firms, while Western European companies have participated to a relatively small extent in mineral processing and chemical ventures in developing countries.

555. The industries in which transnational corporations have made their greatest impact on developing countries' exports of manufactured goods are those making differentiated products. However, an important distinction should be made between final differentiated products, such as machinery and transport equipment, and labour-intensive goods that constitute components and parts of final differentiated products, such as semiconductors. As regards exports of final differentiated products, the leading transnational corporations are those based in the United States. Their activities, however, have been confined to a relatively few countries and commodities. Exports of United States-based automobile corporations from a few Latin American countries seem to comprise the bulk of exports of final differentiated goods from affiliates in developing countries, and while some of the exports are destined for markets in the United States and Western Europe, a large share is sold in the regional Latin American market. Western European transnational corporations have engaged in somewhat less export activity in developing countries as regards this category of goods, and the exports of Japanese companies are even more modest.

556. Transnational corporations have played their most extensive and pervasive part in promoting developing countries' exports of labour-intensive goods which constitute the components and parts for the production of final differentiated goods. Many United States and also some Western European and Japanese companies have made extensive investments in export-processing zones of developing countries, mainly in the electronics and semiconductor industries. In certain cases, for instance the Republic of Korea's exports of consumer electronics, local firms have been successful exporters of electronic products, but in general transnational corporations have dominated such exports, notably of semiconductors. As noted before, they made their investments mainly in order to take advantage of relatively low labour costs in the developing countries concerned in cases where the production process can be fragmented so that full use can be made of the local comparative advantage in labour-intensive production.

557. United States-based transnational corporations have made the most extensive investments in offshore semiconductor assembly in these export-processing zones, followed at some distance by Japanese and then Western European companies. While such investments began as early as the 1960s in some countries and accelerated rapidly in the early 1970s, they tapered off considerably in the late 1970s. There has been a marked trend toward increasing automation of these offshore assembly operations in an effort to improve process control and boost productivity. At the same time, the evolution of the technology and economics of the semiconductor industry has decreased the relative contribution of offshore assembly to the total value of the final product. For both these reasons, the importance of assembly labour costs in total production costs appears to be diminishing. At the very

least, this trend reduces the incentive for transnational corporations in the semiconductor industries to invest in offshore assembly in the future; it could conceivably also result in a gradual phasing out of existing offshore assembly operations. The decrease or withdrawal of the operations of foreign corporations from the export-processing zones of the developing countries would pose a serious threat to the future viability of these zones.

558. There are, however, some countervailing factors to these developments. First, although investments by transnational corporations in electronics have historically been export-oriented, local markets for such products in the host countries have developed, and some of these countries may be considered as potential growth areas. Second, it can be argued that some developing countries which are relatively well supplied with skilled personnel can remain competitive in spite of the changing composition of the labour force that accompanies automation, since the wage costs of their engineers and technicians are often far lower than in developed countries. In addition, it is possible that capital-intensive equipment can be used more extensively and therefore more profitably in developing countries because the regulations governing employment and working conditions differ from those in the developed countries. Some developing countries are also making concerted efforts to upgrade their production of semiconductors and to launch training programmes for electronic engineers, computer programmers and systems analysts in order to build up integrated electronic production. Some recent attempts to proceed to more integrated forms of semiconductor manufacturing can be noted in a few East Asian countries, occasionally in co-operation with transnational corporations.

559. It would be unrealistic, however, to believe that the majority of the developing countries which now have, or which plan to establish, export-processing zones will have the possibility to enter the more integrated and advanced production of electronics. Many of these countries lack the necessary infrastructural facilities and industrial capability for such skill-intensive ventures. It seems likely, therefore, that transnational corporations will concentrate their ventures in more skill-intensive production in relatively few developing countries which have a well-developed industrial and technological base. In addition, the export-processing zones may be affected by specific policies of home governments, notably those reflected in United States tariff regulations, since these, at least to some extent, condition investments in the zones. In order to diminish their reliance on transnational corporations for activities in the zones, developing countries might try to diversify the ownership structure of the firms operating in the zones, that is, by trying to expand the role of domestic firms. In addition, efforts to diversify the range of products manufactured in the zones may also be conducive both to the short-term stability and to the long-term viability of the zones.

560. Because the viability of the export-processing zones rests to such a considerable extent on the strategies and interests of transnational corporations and on technological developments and because the possibilities for domestic firms to expand operations in the zones are limited, an industrial development strategy relying on export-processing zones alone would not be prudent. In those developing countries for which the availability of unskilled labour is the main, and perhaps the only, economic resource, the export-processing zones may be of value in the initial phase of industrialization. In other developing countries they can be an important supplement to other industrialization efforts. In both cases, the export-processing zones can create employment opportunities and yield export

earnings. In the long run, attempts should be made to further the integration of the zones into the overall industrial development process, for example by the establishment of forward linkages between semiconductor production and the manufacture of certain consumer electronic products such as calculators, digital watches, and electronic games. The use of export-processing zones in conjunction with import-substitution oriented activities and export-oriented activities of a more general kind, would provide diversified and viable industrial capacity and capability in the developing countries.

561. There are important questions regarding the future participation of transnational corporations in the export-oriented production of differentiated final goods, which developing countries began to produce under import-substituting schemes of industrialization. Originally, these corporations did not need to consider the international efficiency of their ventures established under these schemes because they were assured of adequate profits behind tariff barriers. However, as export orientation increases and protection against imports decreases, they will become concerned about the international competitiveness of their production in developing countries, especially where such production is integrated into their global networks. To the extent that countries liberalize their import regulations and reduce tariffs, transnational corporations will have the option to supply the markets in these countries through exports instead of by local production, as indeed they did before the institution of the original import-substitution schemes. Already, foreign companies have withdrawn from certain industries in some countries which have lowered their import restrictions and thereby exposed local production to internationally efficient competition. However, a massive withdrawal of transnational corporations from developing countries is unlikely because - as indicated before, notably with respect to Latin America - very few countries have abandoned import substitution completely in favour of export-oriented industrialization.

562. The relatively few export ventures established by transnational corporations on the basis of import-substituting industrialization, at least in Latin American countries, continue to depend on the host country's export subsidies to compensate for relatively costly local inputs. While such subsidies may offset the cost of using local inputs, they cannot assure that the products of local origin are of appropriate quality. Nor is it clear that the host country's subsidies can continue to be granted indefinitely. Should such subsidies cease before local suppliers are sufficiently competent to supply cost-efficient products of an acceptable quality, the corporations may be inclined to relocate their activities elsewhere, perhaps in developed countries. Of course, as mentioned before, transnational corporations should make a consistent effort to train their local suppliers to the point where they can become cost-efficient producers. However, the prospects for achieving this objective depend on the initial level of the competence of local suppliers.

563. The propensity of transnational corporations to participate in export-oriented ventures will depend increasingly on the local industrial capability, including the availability of skilled labour and efficient local suppliers. The demand on local capabilities will be heightened in instances where the corporations are required to use local inputs. In general, it seems that the various government incentives will be less attractive if an appropriate industrial milieu, including skilled labour, capital markets and transport structure, are not already present for export-oriented ventures, since there is little advantage in offering incentives if the products cannot be produced efficiently in the long run and sold

internationally. Thus, from a strategic point of view, measures taken by host countries to establish a propitious environment for efficient industrial production will assume increasing importance as transnational corporations are requested to expand exports of relatively sophisticated products, notably those previously produced under import-substituting schemes of industrialization. The effort to be made in this respect by several developing countries is so great that their resources probably have to be supplemented with international development assistance.

4. Conclusions

564. In summary, manufacturing production carried on by transnationals in developing countries has substantially affected the structure, size and growth of the industrial sector in these countries during the last three decades. The role of transnational corporations has been most pronounced in the few countries which promote technically advanced production. In contrast, their presence and effects have been considerably less remarkable in countries whose industrialization is designed in the first place to satisfy basic needs for staple foods, clothing and shelter.

565. Transnational corporations have established some industrial capacity in many developing countries and have thereby contributed to the expansion of production, employment and exports of these countries. By focusing on non-traditional industrial products, notably in the differentiated capital and consumer non-durable goods industries and in the process industries of these countries, they have participated in efforts to diversify the industrial structure and have thereby also contributed to the shift of some industrial production from developed to developing countries. The production of such goods will increase in importance as developing countries proceed with industrialization and the need for essential intermediary and capital goods expands. Finally, transnational corporations can make an important contribution to the creation of industrial capability in host countries, in terms of entrepreneurship, managerial skills and labour training.

566. From a strictly economic point of view, these corporations' operations within the context of export-oriented schemes are more likely to achieve an internationally efficient production and contribute net gains to the balance of payments than those established behind protective tariff walls. Their participation in export-oriented schemes may, however, become restricted to the few countries which can offer a comparative advantage for local industrial production. Investments in a particular country may be made within enclaves, e.g., in export-oriented processing zones. Thus, although import-substitution investments may be less cost-effective than export-oriented investments, they may be better linked to the industrial environment of the host developing country and consequently make a stronger impact on the formation of a local industrial capability.

567. Ideally, investments by these corporations in developing countries should both enhance industrial capacity in terms of efficient production, employment and exports and stimulate the establishment of a local industrial capability. The achievement of both objectives requires conscientious and comprehensive industrial policies and carefully designed specific measures. Industrialization schemes which discriminate neither against inward-oriented nor against outward-oriented activities would probably be the ideal, although striking such a balance requires that government subsidies be neutral between the two types of activities and that

governments foster a discipline in import-substitution ventures, phasing out the subsidies as the activities become more efficient over time. Hence, concerted efforts are needed to stimulate the local industrial milieu at large by planning ahead with regard to the required inputs of various production factors.

568. In the light of the experience of the participation of transnational corporations in the economies of developing countries during the last three decades, it appears essential that, in the framework of effective and efficient industrialization schemes and industrial policies, host governments should attempt to ensure that (i) the participation of these corporations is conducive to a dynamic process of industrialization and adds to the establishment of a long-term efficient manufacturing sector; (ii) optimal positive long-run effects of their participation are obtained by enhancing their contribution to the local industrial capability; (iii) long-run self-sustained local industrial capability is developed with a clear balance between activities of transnational and local corporations; and (iv) the participation of transnational corporations will further broader socio-economic objectives and will not adversely affect efforts to achieve other central objectives of the host country concerned.

Notes

1/ See S.J. Anjaria, et.al., Developments in International Trade Policy. Washington: International Monetary Fund, 1982, based on data in GATT, International Trade (Annual), various years. The data for 1980 are provisional.

2/ See Yearbook of Industrial Statistics, 1980 Edition. New York: Department of International Economic and Social Affairs, Statistical Office of the United Nations, 1982 (United Nations Publication, Sales No. E.81.XVII.8).

3/ See discussion in Colin Bradford, "The NICs and World Economic Adjustment," in Louis Turner and Neil McMullen, The Newly Industrializing Countries: Trade and Adjustment, London: George Allen & Unwin, 1982.

4/ Based on data supplied by the United Nations Statistical Office

5/ This refers to the categories covered by ISIC division 38. Source: UNCTAD, The capital goods sector in developing countries: Technology issues for further research (TD/B/C6/60).

6/ See Raymond Vernon Storm Over the Multinationals (Harvard University Press, 1977); Peter Buckley, Mark Casson The Future of the Multinational Enterprise, London: Macmillan, 1976; Neil Hood, Stephen Young The Economics of Multinational Enterprise, London: Longman, 1979, Betty Barker "A Profile of US Multinational Corporations in 1977" Survey of Current Business, October 1981; John H. Dunning, International Production and the Multinational Enterprise, London: Allen and Unwin, London, 1981. The approach builds on earlier contributions of Hymer, Kindleberger, Caves, Vernon and others. For a useful and comprehensive review of the literature, see Richard S. Newfarmer with Rhona Boardman-Free, "International Industrial Organization and Development: A survey" in Richard S. Newfarmer (ed.) International Oligopoly and Development. Notre Dame: University of Notre Dame Press (forthcoming).

7/ Salient Features and Trends in Direct Foreign Investments (United Nations publication, Sales No. E.83.II.A.8).

8/ From data in the United States Department of Commerce, Direct Foreign Investment Abroad, 1977. Washington: United States Government Printing Office, 1977. Tables II.F.5, p.282; III.h.3, p.320; II.F.5, p.138.

9/ Transnational Corporations in Food and Beverage Processing, (United Nations publication, Sales No. E.81.II.A.12).

10/ Van R. Whiting, Jr., "Transnational Enterprise in the Food Processing Industry" (Table 15), in Richard S. Newfarmer (ed.) op. cit. The calculation is based on data from the Harvard Multinational Enterprise Project.

11/ Transnational Corporations in Food and Beverage Processing, op. cit. pp. 148-152.

12/ Leif Schaumann, Pharmaceutical Industry Dynamics and Outlook to 1985, Menlo Park, California: Stanford Research Institute, 1976, p.13. The "foreign share" is defined to include both manufacturing firms within the host countries that are more than 50 per cent owned, and sales by domestic firms that function as contract marketing, distribution, and in rare cases manufacturing agents for foreign companies. See Gary Gereffi, "The Global Pharmaceutical Industry and Its Impact on Third World Countries" in Richard S. Newfarmer (ed.) op. cit.

13/ See United Nations Centre on Transnational Corporations, Transnational corporations in the pharmaceutical industry of developing countries: a technical study; to be issued as a United Nations publication.

14/ Transnational Corporations in the Power Equipment Industry (United Nations publication, Sales No. E.82.II.A.11).

15/ See Richard S. Newfarmer, "International Oligopoly in the Electrical Industry" in Richard S. Newfarmer (ed.) op. cit.

16/ See Annex Table II.25.

17/ Transnational Corporations in Food and Beverage Processing, op. cit., paras. 202-208; and Transnational Corporations in the Pharmaceutical Industry of Developing Countries, op. cit.

18/ See the review by Richard S. Newfarmer and Rhona Boardman-Rhee, op. cit. For some country case studies, see Peter Cory "The Pattern of Foreign Subsidiary Production in Mexican Industry" (mimeo, 1979); E. Manrique Multinational Corporations, Advertising and Industrial Organization in Economic Development: A Case Study of the Philippines (Unpublished PhD. thesis, University of Notre Dame, July 1982); R. Newfarmer The Economics of Dependent Development (TAI, 1980); S. Lall "Multinationals and Market Structure in an Open Developing Economy: The Case of Malaysia" Weltwirtschaftliches Archiv, June 1979; E. Mannrique op. cit.; J. Mooney A Quantitative Analysis of Market Structure and Performance in Brazil (Unpublished PhD. thesis, University of Notre Dame, March 1982); S. Langdon, Multinational Corporations in the Political Economy of Kenya London: Macmillan, 1981, ch.4; Juan V. Sourouille, El Impacto de las Empresas Transnacionales Sobre el Empleo y Los Ingresos: El Caso de Argentina. Geneva; International Labour

Organisation, 1976; Constantino C. Vaitsos, Employment Problems and Transnational Enterprises in Developing Countries: Distortions and Inequality, Geneva; ILO, 1976; R. Newfarmer, L. Marsh "Industrial Interdependence and Development in Brazil" (unpublished manuscript, July 1981), and Maria Luiz Possas, Employment Effects of Multinational Enterprises in Brazil. Geneva; ILO 1979, pp. 35-46, esp. p. 37.

19/ Richard S. Newfarmer (ed.) op. cit.

20/ For a useful summary of the Latin American experience, together with ample references to the literature, see Douglas C. Bennet and Kenneth E. Sharpe, "The World Autombile Industry and its Implications for the Developing Countries of Latin America" in Richard S. Newfarmer (ed.), op. cit.

21/ This development has been strongest in Brazil and Mexico. In Mexico, assembly firms have announced plans for the production and export of locally made engines at a rate of between 1 million to 2.25 million units per annum, whereas in Brazil Volkswagen, General Motors and other firms have taken steps to integrate production of parts and vehicles fully into their worldwide sourcing and production networks.

22/ See R. Bonelli and L. Facanha, "A Industria de Bens de Capital no Brasil", Rio de Janeiro, 1977 (Mimeo), and EMRAMEC, "Comercio Exterior na Area de Bens de Capital", Rio de Janeiro, 1980 (Mimeo).

23/ See Annex Table II.25.

24/ In the Brazilian electrical power equipment industry, the proponsity of import of subsidiaries of transnational corporations is more than twice that of locally owned enterprises, and imports as a proportion of total supplies increased from 10 per cent in 1965 to over 20 per cent in the 1970s. Also of 102 enterprises in the industry, only two report R & D expenditures, and both of these are Brazilian. See Richard S. Newfarmer, "International Oligopoly in the Electrical Industry" in Richard S. Newfarmer (ed.) op. cit.

25/ Secretaría de Patrimonio y Fomento Industrial, Industrial Development Plan, Mexico, 1980.

26/ Based on data from the Dirección de Inversiones Extranjeras y Transferencia.

27/ Data from Planning Commission, Sixth Five-Year Plan, 1980-85, Government of India, New Delhi, 1980, and Monthly Statistics of Foreign Trade in India, DGCI and S. Calcutta, 1981.

28/ Data from Korea Society for the Advancement of Machine Industry, Korea-Machinery Industry, Seoul, 1981

29/ "Foreign Investments in Korea", Business Asia, July 1981.

30/ Business Asia, op. cit.

31/ See G.K. Helleiner, "Manufactured Exports from Less Developed Countries and Multinational Firms," Economic Journal, 83; 21-47 (1973). And Raymond Vernon, Storm over the Multinationals: The Real Issues, Cambridge, Mass: Harvard University Press, 1977.

32/ See K. Ojima and T. Ozawa, "Japan and the New Forms of Investment: The Role of the Soga Shosha Trading Companies". Paris: OECD Development Centre, (Mimeo) March 1982

33/ An export processing zone is an area set aside by the host country with specially provided infrastructure (port facilities, power, water, etc.), frequently at subsidized rates. Investors are free to import raw and intermediate materials and export their production free of import and export duties, income taxes, minimum wage requirements, and the other fiscal regulations and legislative provisions of the host country.

34/ See UNIDO, Export-Processing Zones in Developing Countries. UNIDO/ICIS. 176, 18 August 1980.

35/ See for instance 1980 Year Book of Labour Statistics, International Labour Office, Geneva, 1980; M.A. Hancock "Electronics: The International Industry. An Examination of US Electronics Offshore Production Involving Femal Workforce in Southeast Asia," Working Papers of the East-West Culture Learning Institute, East-West Center, Honolulu, 1980; I. Minian "Progreso Técnico e internacionalización del proceso productivo: el caso de la industria maquiladora de tipo electrónica", CIDE, Mexico City, 1981; M. Sharpston "International Subcontracting," Oxford Economic Papers, March 1975, pp. 94-135 and Business Week; J. Currie "Investment: The Growing Role of Export-Processing Zones," EIU Special Report No.64. On wage productivity comparisons, see the Asian Wall Street Journal Weekly, 14 December 1981, and Semiconductor International, February 1982. For further data on productivity comparisons see, for instance, "Industrial Development Strategy and Policies in the Philippines," Industrial Development and Finance Department, the World Bank, Volume II, p.12 and Volume III, pp. 31-32, Washington, 29 October 1979. See also Transnational Corporations in the International Semiconductor Industry (ST/CTC/39; to be issued as a United Nations publication).

36/ See J-L Truel, "Les nouvelles stratégies de localisation internationale: Le cas des semi-conductors," Revue d'economie Industrielle, No. 14, 4^{e} trimestre 1980

37/ United States Department of Commerce, "A Report on the United States Semiconductor Industry", Washington, D.C., September 1979 and "Import Trends in TSUSA Items 806.30 and 807.000", US International Trade Commission Publication 1029, Goverment Printing Office, Washington, D.C., January 1980. See also United States Tariff Commission, "Economic Factors Affecting the Use of Items 807.000, and 806.30 of the Tariff Schedules of the United States", Washington, D.C., September 1970. Item 806.30 allows special treatment of metal articles exported by US firms for processing abroad by a subsidiary or foreign subcontractor and returned for further processing by the United State firm. Item 807.00 allows special treatment of any imported articles which contain United States components, regardless of whether the foreign operation is performed by a United States subsidiary, a foreign subcontractor or a foreign firm which purchases United States components for inclusion in products exported to the United States. See "Intra-Industry Trade and International Subcontracting," UNCTAD TD/B/805/Supp. 2, 6 August 1980.

38/ Transnational Corporations in the International Semiconductor Industry, op. cit.

39/ For Brazil and Mexico see data in Sanjaya Lall, "Recent Trends in Exports of Manufactures by Newly Industrializing Countries" in Developing Countries in the International Economy, London, MacMillan Press Ltd., 1981. For the Republic of Korea, see Annex Table IV.7.

40/ J. Arpan, J. de la Torre and B. Toyne, "International Development and the United States Apparel Industry", Journal of International Business Studies, Winter 1981

41/ Ibid.

42/ Raymond Vernon, "The Product Cycle Hypothesis in a New International Environment" Bulletin of Economic and Statistics, 1980.

43/ See Sanjaya Lall, and Paul Streeten, Foreign Investment, Transnational and Developing Countries. Boulder, Colorado: Westview Press, 1977; Benjamin I. Cohen, "Comparative Behavior of Foreign and Domestic Export Firms in a Developing Economy, Review of Economics and Statistics, 55: 190-97, 1973; Fernando Fajnzylber and Trinidad Martínez Tarragó, Las Empresas Transnacionales, Mexico City: Fondo de Cultura Económica, 1976; and Constantine Vaitsos, "The Role of Transnational Enterprise in Latin America Economic Integration Efforts: Who Integrates and with whom, How and for Whose Benefit?" Prepared for UNCTAD secretariat, (Mimeo) 1978.

44/ Richard Newfarmer and Lawrence Marsh, International Interdependence and Development. Report to the United States Department of Labour, 31 July, 1981, (Mimeo) 1981.

45/ Benjamin Cohen, Multinational Firms and Asian Exports. New Haven and London: Yale University Press, 1975.

46/ C. Vaitsos, "The Role of International Enterprise ...." op. cit., 1978.

47/ Fernando Fajnzylber, "Sistema Industrial e Exportacao de Manufacturas," Rio Economic Commission for Latin America, Instituto de Planejamento Economic e Social, 1970; Fernando Fajnzylber and Trinidad Martínez Tarragó, op. cit. 1976; Rhys Jenkins, "The Export Performance of Multinational Corporations in Mexican Industry," Journal of Development Studies, April 15, 1979; J. Riedel, "The Nature and Determinants of Export-Oriented Direct Foreign Investment in a developing Country: A Case Study of Taiwan," Weltwirtschaft Archiv, 3. 1975; A.E. Safarian, Foreign Ownership of Canadian Industry. Toronto: McGraw Hill Company of Canada Ltd., 1966; C.V. Vaitsos, "The Role of Transnational Enterprise ..." op. cit. 1978, and Larry Wilmore, "Direct Foreign Investment in Central American Manufacturing." World Development, 4 (6): 499-517, 1976.

48/ Richard Newfarmer and L. Marsh, op. cit. 1981.

49/ Performance requirements relating to exports, imports and local content affected 6 per cent of all affiliates of United States-based transnational corporations in developing countries in 1977. See data in United States Department of Commerce, op. cit, Table II.L.1, p. 170.

50/ See "Overseas Transactions, 1979 and 1980," Business Monitor MA4 (London, Her Majesty's Stationery Office).

51/ UNCTAD, "Dominant Positions of Market Power of Transnational Corporations: Use of the Transfer Pricing Mechanism," Study by the UNCTAD Secretariat, United Nations, 1978.

52/ Richard Newfarmer and Willard F. Mueller, Multinational Corporations in Brazil and Mexico: Structural Sources of Economic and Noneconomic Power. Report to the Subcomittee on Multinational Corporations of the Committee on Foreign Relations, United States Senate, Washington, D.C.: United States Government Printing Office, 1975.

53/ Ibid.

54/ G.K. H elleiner, and R. Lavergne, "Data on Exports of Majority-Owned Foreign Affiliates to the United States, 1966 and 1977." Prepared for the UN Centre on Transnational Corporations (Mimeo) 1981.

55/ UNCTAD, op. cit. 1978, p. 4.

56/ Ibid

57/ It has been suggested that the term "commercialization" is appropriate to describe such transactions, since the suppliers of technology are essentially interested in earning returns on their technological assets, and the context of the transactions can be analyzed in the same way as the market for any commodity. See Constantino V. Vaitsos, "The Process of Commercialization of Technology in the Andean Pact" in H. Radice (ed.) International Firms and Modern Imperialism. Harmondsworth: Penguin, 1975. Where ownership of the technology is not transferred to the buyer, another writer has suggested that the term "leasing" should be used to describe the transaction. See M.A. Odle, "Technology Leasing as the Latest Imperialist Phase: A Case Study of Guyana and Trinidad" in Norman P. Girvan (ed.) Essays on Science and Technology Policy in the Caribbean, Special Number of Social and Economic Studies, Vol. 28, No.1, March 1979.

58/ See Graham Vickery, "New Forms of investment: Evidence from Balance of Payments Accounts of OECD Countries", 1970-1980. Paris: OECD Development Centre (Mimeo), March 1982.

59/ See E. Mansfield, "International resource transfer; rates, benefits, and public policy", paper presented at the annual meeting of the American Economic Association, 28 December 1981.

60/ See L.G. Franko, "Use of Minority and 50-50 joint ventures by United States Multinationals as indicators of Trends in "New Forms" of International Investment", Paris: OECD Development Centre, (mimeo) 1982, pp. 13-14.

61/ By 1980, wholly and majority-owned foreign firms accounted for 26.1 per cent of the cumulative total of all new foreign firms approved by Government since 1962, compared to 39.3 per cent in 1972. As a proportion of the total cumulated investment by all approved foreign firms, these firms accounted for 37.2 per cent by 1980 compared to 50.5 per cent in 1973. See Bohn-Youn Koo (1982) "Status and Changing Forms of Foreign Investment in Korea", Paris: OECD Development Centre (Mimeo) 1982, Tables 21 and 22.

62/ E.A. Guimaraes, P.S. Malan, and Jose Tavares de Araujo Jr., "The "New Forms" of Foreign Investment in Brazil", Paris: OECD Development Centre, (mimeo) 1982, Appendix B.

63/ See Guimaraes, et. al, ibid. Part A.

64/ See Francisco Sercovitch, State Owned Enterprises and Dynamic Comparative Advantages in the World Petrochemical Industry: The Case of Commodity Olefins in Brazil. Harvard Institute for International Development, Development Discussion Paper No.96, 1980.

65/ See L. G. Franko, op. cit., 1982, pp. 21-22.

66/ See M.A. Odle, "Technology Leasing ..." op. cit. 1979.

67/ On the factors tending to affect positively the propensity of firms to engage in licensing of unrelated enterprises see F.J. Contractor, International Technology Licensing: Compensation, Costs and Negotiation Lexington Books: Lexington, Mass., 1981, and "The Role of Licensing in International Strategy" (Mimeo) 1981; P. Telesio Foreign Licensing Policy in Multinational Enterprises DBA dissertation, Harvard, 1977.

68/ See Bohn-Young Koo, op. cit., 1982, Table 35.

69/ See Tan Siew Ee, and M. Kulasingham "New Forms of International Investment: The Malaysian Experience", Paris, OECD Development Centre, (Mimeo) 1982.

70/ See Pang Eng Fong, "Foreign Direct Investment in Singapore: A Preliminary Report", Paris, OECD Development Centre, (Mimeo), 1981, Table 6, p. 34.

71/ See E.A. Guimaraes et. al. op. cit. 1982, Tables 36 to 39.

72/ See Martin Bell and Kurt Hoffman, "Industrial Development with Imported Technology: A Strategic Perspective on Policy, Sussex: Science Policy Research Unit, (Mimeo) 1981; Norman P. Girvan "Notes on Technological Capability, Caribbean Technology Policy Studies II, Working Paper No.1, Department of Economics, University of the West Indies, Trinidad and Tobago

73/ See Junta del Acuerdo de Cartagena, Technological Policy and Economic Development, Ottawa: IDRC, 1976, pp.23 et. seq.

74/ Ibid, pp.39 et. seq.

75/ See S.L. Kapur, "Policy Procedures and Problems Regarding Imports of Technology in India", paper presented at the UNIDO/LES Joint Meeting on Problems of Licensing into Developing Countries, June 1982.

76/ See L.E. Westphal, Y.W. Rhee, and G. Pursell, "Korean Industrial Competence: Where It Came From, December 1980 (Mimeo).

77/ On India, see Kapur, op. cit. 1982; on Japan and Yugoslavia, see Junta del Acuerdo de Cartagena, op. cit 1976.

78/ See A. Nadal, Instrumentos de Política Científica y Tecnológica en Mexico, El Colegio de Mexico, 1977.

79/ See Kapur, op. cit., 1982.

80/ R.H. Mason "A comment on Professor Kojima's 'Japanese type' versus 'American type' of technology transfer" in Hitotsubashi Journal of Economics vol. 20, No.2, 1980, p.46.

81/ The share of the developing countries in the total value of turnkey contracts on a year-by-year basis varied from 31 to 70 per cent for France between 1970 and 1976, 45 to 69 per cent for the Federal Republic of Germany between 1972 and 1975, 24 to 77 per cent for the United Kingdom from 1974 to 1976, and from 43 to 91 per cent for the United States of America from 1974 to 1976. From La Documentacion française, Les Usine Clés en Main Paris: 1977, pp. 24-25.

82/ Ibid.

83/ For further discussion and analysis of the characteristics of turnkey contracts, see UNCTC, "Features and Issues in Turnkey Contracts in Developing Countries: A Technical Paper", New York, 1981.

84/ See F.C. Sercovitch, "Design engineering and endogenous technical change: A microeconomic approach based on the experience of the Argentine chemical and petrochemical industries", BID/CEPAL/BA:43 Rev.1, Working Paper No. 19, October 1978.

Chapter V

TRANSNATIONAL CORPORATIONS IN SELECTED SECTORS

569. Transnational corporations generally play an important role in the industrialization of the developing countries. The extent and significance of this role vary somewhat from one specific sector or sub-sector to another and between countries at different levels of development. Their role has also varied in the course of time.

570. In the non-renewable energy sector, these corporations have lost a great deal of their ownership of primary resources, but have managed to retain influence over the industry through their control over such downstream operations as marketing and distribution, and through their superior exploration and production technology. The situation is not very different in the case of non-fuel minerals, although a distinction could be drawn between the integrated production deposits of tin and copper, on the one hand, and the working of bauxite, iron ore and zinc deposits, on the other. As regards the food sector (where the situation remains precarious in certain low-income countries), while transnational corporations are not as prominent as they once were at the primary production level, in such pre-production industries as agro-chemicals, seed and animal genetics, fertilisers, and tractors and harvesting machinery, they are increasingly pre-eminent; a similarsituation obtains the post-harvest food trade and the various agro-processing activities.

571. The effect of the transnational corporations on the developing countries is not only of an economic nature. For example, certain primary and secondary industries have had an adverse impact on the environment in the industrial countries, and similar effects of such industries on the quality of life are to be expected in the developing countries sooner or later; in fact, the concerns of some of the developng countries in this regard are already significantly greater now than they were ten years ago. Lastly, the presence of transnational corporations is often associated with certain socio-cultural changes that are taking place in the developing countries, although it is debatable how far these changes are attributable to the transnational corporations, or to the process of modernisation, or to government policies concerning the distribution of income and other matters.

A. Transnational corporations and the energy sector

572. Even though State enterprises, especially in the developing countries, have assumed a more active role in the exploration, development, production and marketing of energy resources over the past decade, 1/ transnational corporations still dominate many parts of the energy industry, and their influence, while not perhaps as all-pervasive as it was in the 1950s and 1960s, nonetheless remains strong. The expansion of the international oil companies into such related industries as coal, nuclear and solar energy, and even into other industries, e.g. non-fuel minerals, electrical equipment and machinery, office products and retailing, suggests that these companies are likely to remain powerful in the world economy, even if current trends in the world oil industry toward greater national control over petroleum resources continue - which is by no means certain.

573. An important question is how far the transnational corporations have contributed to the satisfaction of the energy needs of the developing countries by assisting in the exploration for new sources of energy, and for petroleum and alternatives to it, and by promoting the conservation of energy. Such activities would be particularly important for the least developed oil-importing countries which were hard hit by the two oil price increases.

574. This part of the study discusses the current and projected involvement of transnational corporations in the energy industry. The first section deals with the extent of their involvement in fossil fuels and other energy sources. The second section discusses strategies and investment of these corporations in oil and the reactions of the developing countries. The third section discusses trends in the development and control of energy-related technologies.

1. Fossil fuels

(a) Oil and natural gas

575. During most of the twentieth century, the international oil industry was dominated by seven major transnational corporations - Exxon, Royal Dutch/Shell, British Petroleum, Gulf Oil, Texaco, Standard Oil of California and Mobil (to use the companies' current names). In addition to dominating crude oil production, these companies firmly controlled the marketing and transport of petroleum products, through large networks of wholesale and retail distributors and through the operation of tanker fleets for carrying the crude oil and petroleum products. 2/

576. Even as late as 1972, the seven major companies (with, by then, the addition of such new State-controlled companies as the Compagnie Française des Pétroles of France and ENI of Italy) were still largely maintaining their position. As of that time, the total crude production of the seven major companies had increased five-fold from the 1949 level, but their relative rankings remained almost unchanged. Virtually all these companies were, in the early 1970s, crude-oil surplus producers and able to satisfy all their downstream processing (refining) needs from their own crude production and, in addition, they usually had crude oil surpluses available for sale to independent refiners and marketers.

577. The situation has changed dramatically since 1972; there has, in fact, been a fundamental restructuring of the international oil industry, which has been amply documented. 3/ First, the crude-oil exporting countries, acting through the Organization of the Petroleum Exporting Countries (OPEC), have played a more direct part in establishing prices for crude oil on the international market. Whereas previously their income had depended on pricing decisions made by the major oil companies, the new price-setting function of OPEC has, enabled them, despite the constraints of the market, to exercise some control over price levels and, hence, over national income and foreign exchange earnings from oil sales.

578. Second, there has been a general trend in the established crude-oil producing regions toward direct government ownership of productive facilities. As a result, the ownership of their own crude oil by the seven major companies and the other large transnational petroleum corporations has, in relative terms, decreased markedly from the level of a decade ago. More than 100 countries have established State oil companies, with mandates to participate in the exploration, development, production and sale of petroleum, and most of the major producing countries have acquired either full or majority ownership of production facilities in their

territories. Table V.1 shows the shift in the control of crude oil production between 1970 and 1979. As the table indicates, the total share of transnational petroleum corporations in world-wide production decreased from 94 per cent in 1970 to 45 per cent in 1979, while the share of the seven major companies declined even more sharply, from 61 to 25 per cent. This loss of assured crude oil supplies sharply reduced the ability of the transnational petroleum corporations to supply their own refineries with crude oil, and their aggregate "cushion" or excess of crude supply over refinery needs declined from 33 per cent in 1970 to 16 per cent by 1979.

Table V.1. Shifts in oil industry ownership and sales, 1970 and 1979

(Per cent)

	1970	1979
Crude oil ownership		
Seven major companies	61	25
Other transnational corporations	33	20
Producing countries	0	55
State marketing companies	6	0
Product sales		
Seven major companies	50	40
Other transnational corporations	41	42
State enterprises	9	18

Source: International Petroleum Encyclopedia, 1981, p. 426.

579. Nevertheless, transnational corporations still account for a major share of the oil traded internationally. In many cases where crude oil production has been nationalized, the companies formerly involved have retained the right to purchase substantial volumes of oil from the State company in the producing country. As late as 1980, of all crude oil produced outside North America and the socialist countries, 43 per cent was either produced by or purchased by the seven major companies, while 24 per cent went to smaller transnational petroleum companies or trading companies, 19 per cent was accounted for by official government-to-government sales, and 14 per cent was retained in the producing countries for domestic use. 4/

580. A third structural change in the oil industry during the 1970s affected the nature of the contractual relations between the transnational corporations and host governments. Whereas in 1970, most contracts were of the concession type, with virtually no management or control functions reserved for the host government and relatively limited financial benefits for the host country (the benefits themselves being wholly dependent on the companies' decisions about pricing and production levels), by the end of the decade, the standard terms of contracts had been considerably improved, from the standpoint of the host countries, and a large proportion of the crude oil produced was either owned outright by State enterprises or was covered by such new contractual arrangements as production-sharing and service contracts. 5/ In very general terms, the effect of the new contracts was to entitle producing countries to 80 to 98 per cent of the profits from crude oil production, after actual costs had been recouped, by contrast with the 50-50 split favoured by the oil companies in the 1960s.

581. More recently, in response to the weakness in the international oil market in 1981-1982, contract terms have been softened somewhat by the developing countries anxious to attract transnational corporations for oil exploration. The withdrawal of the corporations from exploration in some developing countries has created a certain degree of competition among countries for exploration funds. All these changes have contributed both to the evolution of the diversification strategies of the corporations and to a modification of the strategies of host countries.

582. What has happened in effect is that the oil companies have lost their earlier firm control over previously important productive areas, notably in the Middle East and Venezuela and that many of the large companies are now concentrating on North America as a source of crude oil reserves, acquired either through increased exploration or through the purchase of existing companies. It is unlikely that any region will replace the Middle East as a source of crude oil for the major companies, that would enable them to regain their former dominant position in the production of oil. In this sense, the trends of the past decade are probably irreversible. The oil companies are, however, taking certain steps to compensate for the loss of their traditional sources of supply, through intensified exploration in North America, as noted, and in what they consider to be "safe" areas, such as the North Sea. In addition, there has been some exploration activity by oil companies in West Africa (principally in the Ivory Coast, but to some extent in virtually all countries in the region) and in the Caribbean and Latin America.

583. A further point worth noting is that a considerable proportion of the oil produced by national oil companies in the developing countries continues to be marketed through the seven major companies, under long-term sales agreements which were concluded as part of over-all nationalization settlements. In particular in the case of Saudi Arabia the four Aramco partners - Exxon, Standard Oil of California, Texaco and Mobil - still purchase the bulk of Saudi production. Other countries which have nationalized the production facilities of the seven major companies (for example, the Islamic Republic of Iran, Kuwait and Venezuela) have moved more rapidly in establishing their own distribution channels for crude oil production and hence have reduced their reliance on these companies. However, the loss of ownership at the production level did not appear to affect their profits adversely. On the contrary, as prices of petroleum rose the transnational corporations concerned made unprecedentedly high profits. Recently, however, profits have suffered some erosion.

(b) Coal

584. The participation of transnational corporations in the coal industry world-wide is much less pervasive than in the petroleum industry. Of the major coal-producing countries - the United States, the Soviet Union and China - only in the United States do such corporations control the bulk of the coal production. USSR production is wholly State-owned, though a few compensation trade arrangements have been entered into with Japanese transnational corporations, and in China foreign companies are developing only a few large mines, the home countries of these companies being the United States, the Federal Republic of Germany and Japan. In the coal-producing countries of Eastern and Western Europe as well, most production is carried out by State enterprises, for which transnational corporations act merely as suppliers of technology. Other countries where transnational corporations are prominent in the coal industry include South Africa,

where most of the major mining finance groups, notably the Anglo-American Corporation, have large coal interests; Australia, where Japanese and United States corporations have invested heavily in coal; Colombia, where Exxon is a partner in the development of the very large Cerrejon coal deposits; and Indonesia, where several production-sharing contracts for coal development have been signed with the Royal Dutch/Shell group and Rio Tinto Zinc/Conzinc of Australia.

585. One may make several broad generalizations regarding the role of transnational corporations in the coal industry. First, their presence in the industry appears likely to increase, from the relatively low level of past years. New projects in developing countries, in particular, will probably be undertaken with a substantial participation of transnational corporations. Second, oil companies are increasingly entering the coal industry, through their ownership of coal operators, and this involvement also appears likely to increase in the future. Lastly, as the international trade in coal expands transnational corporations will probably become more prominent not only in the production, but also in the shipping and trading of coal, where the international merchant firms (e.g., Philipp Bros.) are a major factor.

2. Other energy sources

586. Although the major fossil fuels - petroleum and coal - account for the great bulk of the world's commercial energy supplies, other energy sources promise to assume greater importance in the future, such as uranium, synthetic fuels, geothermal energy, and other renewable sources.

587. Despite recent reductions in the growth rate of nuclear-fuelled electricity generation, uranium remains a significant energy source. Major producing countries, in addition to Australia, Canada and the United States of America, include Gabon, Namibia and Niger; Brazil is also likely to become an important producer of uranium within the next decade. Uranium deposits have been discovered in many developing countries, and exploration is taking place throughout the world.

588. In Canada and the United States, uranium production is largely in the hands of transnational corporations whose principal business activities are concerned either with oil or with nonferrous metals. Outside the United States, a few transnational corporations are leaders in the uranium industry, notably the Rio Tinto Zinc group of the United Kingdom.

589. The oil companies have been particularly active in exploration for uranium outside the traditional producing countries. The Royal Dutch/Shell subsidiary, Billiton, for example, has extensive exploration interests in Latin America, while BP Minerals, a British Petroleum subsidiary, is exploring for uranium in Australia. The massive Jabiluka deposit in northern Australia is being developed by a group largely financed by Getty Oil of the United States. In contrast to the petroleum sector, the uranium industry has thus far seen little participation by State companies or governments of developing countries.

590. Among recent developments in the energy sector the so called "synthetic fuels" programme of certain industrialized countries has attracted great public attention. The term "synthetic fuels" actually covers fuels made by several different processes, such as gasification of coal, extraction of oil from shale, and the development of tar sands and heavy oils which are not recoverable by conventional oil industry methods. In ventures employing these processes, the

primary participants have been State agencies of the industrialized countries and the major international oil companies. Despite the oil price increases, however, it would appear that the transnational corporations do not yet consider the commercial application of "synthetic" technologies to be financially remunerative.

591. The development of geothermal energy sources on a commercial scale has as yet taken place in only a few countries, notably Iceland, Italy, Japan, New Zealand, the Philippines and the United States. Energy from a geothermal source is necessarily less transportable than oil, coal or uranium. For this reason transnational corporations are unlikely to enter the industry on a world-wide basis, at least as owners of geothermal projects. On the other hand, because the technical knowledge of geothermal development is concentrated in the hands of a few companies, these will probably retain a strong bargaining position.

592. As regards other renewable sources, transnational corporations have shown particular interest in solar energy and, to a lesser extent, biomass energy, but little or no interest in wind power. In the case of hydro-electric installations, there continues to be non-equity involvement by construction and equipment supply firms.

593. United States-based transnational corporations seem to be the most active among those which have shown an interest in solar energy projects. In 1979 there were 16 United States corporations with over $100 million in sales listed as solar collector manufacturers; Africa is a promising market for small-scale solar equipment, such as pumps, and solar units for television transmission. French firms are also involved in solar projects in many African countries. The largest solar energy project is in Colombia, where a British company agreed in 1981 to supply energy for the world's first solar-powered telephone network. 6/ As regards photovoltaics, the United States corporations accounted for 78 per cent (equivalent to $27 million) of the world market in 1979.

3. Strategies and investment trends of transnational corporations

594. As developing countries have gained increasing control over the domestic production and distribution of the petroleum, the major oil companies have followed two basic strategies for adapting to the changed situation. First, as already noted, they have redirected their investment in oil and gas toward locations considered "safe" by the companies, and, second, they have diversified their activities into non-oil sectors. In addition, wherever possible, they have attempted to shift both control and profitability from those segments of the industry which are under increasing host country control (e.g., production of crude oil) to areas where they retain important advantages (e.g., the supply of technology and finance and world-wide distribution). The companies have also developed mechanisms for adjusting to the new kinds of contractual arrangements used by most developing countries.

595. The redirection strategy of the oil companies is reflected in their exploration activities. Table V.2 shows that petroleum exploration in developed countries expanded very significantly during the 1970s, whereas exploration activity in developing countries tended to decline during the decade. Seismic prospecting in the developing countries fell from 11,600 party-months of survey activity in the 1970-1974 period to 11,200 party-months during the 1975-1979 period, compared with 21,000 and 26,500 party-months in the developed countries for the same two periods, respectively. The developing countries' share of seismic

Table V.2. Estimate of exploration efforts in the world

	Party months a/ of seismic prospecting				Exploratory wells			
	1970-1974		1975-1979		1970-1974		1975-1979	
	Number	%	Number	%	Number	%	Number	%
Developed countries	21000	64.5	26500	70.3	48800	89.7	64030	92.4
North America	17000	52.2	22500	59.7	47100	86.6	62050	89.5
Other countries	4000	12.3	4000	10.6	41700	3.1	2000	2.9
Developing countries	11600	35.5 c/	11200	29.7 c/	5374	10.3 c/	5338	7.6 c/
OPEC	2600	14.1	4650	12.3	2231	4.5	2377	3.4
Non-OPEC producers	2800	8.6	2825	7.5	1510	2.8	1492	2.1
Other importers	1150	3.5	800	2.1	259	0.5	242	0.3
Total b/	32600	100.0	37700	100.0	54374	100.0	69985	100.0

Source: H. Le Leuch and J. Favre, "Oil and Gas Supply in the Developing Countries", paper presented at a United Nations (Department of International Economic and Social Affairs) Conference on Petroleum in the 1980s, New York, December 1981, table 4.

a/ The term "party months" refers to the number of months of work carried out by a team or group of seismic prospectors.

b/ Excluding socialist countries and a few countries for which data are not available (Afghanistan, Burma, India, Syrian Arab Republic).

c/ On occount of the intensity of exploration in the developed countries, the cost of operations is lower there. The breakdown of exploration efforts measured in terms of expenditures is thus slightly less unfavourable for the developing countries.

activity therefore fell from 35.5 per cent in 1970-1974 to 29.5 per cent in 1975-1979. Similarly, the number of exploratory wells drilled in the developing countries fell from 5,574 during the 1970-1974 period to 5,338 in 1975-1979, compared with a rise in developed countries from 48,800 to 64,650 between the two periods. The developing countries' share of exploratory wells therefore fell from 10.3 per cent to 7.6 per cent.

596. The distribution of exploration efforts among groups of developing countries remains skewed. Of the seismic surveys carried out in the entire 1970-1979 period, 41 per cent took place in OPEC countries, 26 per cent in other oil-exporting developing countries, 25 per cent in oil-importing producing developing countries. and 8 per cent in the 80 non-oil producing developing countries. Similarly, 43 per cent of exploratory wells were drilled in OPEC countries, 24 per cent in other oil-exporting countries, 28 per cent in oil-importing producing countries, and only 5 per cent in the 80 non-oil producing developing countries, i.e., an average of about 0.6 wells per year per country for this last group of countries.

597. More detailed statistics are given in table V.3 concerning exploration drilling undertaken since 1970 in developing countries. These statistics show the

Table V.3. Evolution of the number of exploratory wells in the developing countries

Zone \ Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total 1970-1979
OPEC countries	386	510	523	501	511	469	454	434	491	529	4805 (43%)
Non-OPEC oil exporting developing countries	256	285	308	243	252	245	205	232	273	272	2603 (24%)
Oil-importing developing countries a/	358	369	326	357	359	346	350	386	346	306	3503 (33%)
(Latin America)	271	289	250	264	367	225	247	300	231	227	2571 (24%)
(Africa)	46	32	28	25	29	35	26	30	27	26	304 (3%)
(Asia-Oceania)	43	48	48	68	63	86	77	56	88	53	625 (6%)
Total developing countries	1030	1164	1157	1101	1122	1060	10009	1052	1110	1107	10912 (100%)

Source: H. Le Leuch and J. Favre, op. cit. table 5.

a/ Excluding a few countries for whih data are not available.

relative stability in the number of wells drilled annually during the decade and the small number of exploration operations undertaken in the oil-importing developing countries, especially in Africa (about 30 wells per year) and Asia-Oceania (about 60 wells per year). Contrary to what might have been expected, therefore, the 1973 oil price increase did not result in a speeding up of exploration efforts in developing countries, if these efforts are measured in seismic survey party-months or number of wells drilled. Naturally, total spending for exploration increased, both because of the rise in direct exploration unit costs, which have risen faster than the rate of inflation, especially for drilling, and because of the gradual extension of exploration efforts to more difficult areas, such as remote jungle regions and deep offshore basins.

598. If the intensity of exploration is evaluated with resect to the extent of sedimentary basins likely to contain oil, however, it can be seen that the developing countries are at a considerble disadvantage. For example, the develoing countries, excluding OPEC, have a total sedimentary area of approximately 25 million square kilometers, or slightly more than that of all the industrialized countries, including North America. However, the number of exploratory wells drilled in the industrial countries from 1975 to 1979 was approximately 20 times as great as that in the non-OPEC developing countries (12,930 as against 592 in the non-OPEC developing countries).

599. Faced with the unwillingness on the part of transnational petroleum corporations to intensify exploration, developing countries have reacted in a number of ways.

(a) Some countries have increased exploration efforts through their State oil companies, employing outside firms only as contractors to perform specific services. This strategy has been applied with outstanding success by Mexico, where Pemex, the State oil enterprise, has been responsible for a series of large discoveries which have made Mexico one of the world's leading oil exporters.

(b) Other countries where State oil enterprises have been responsible for exploration in the past (e.g., Argentina, Brazil, India) have made efforts to attract transnational corporations by offering risk contracts for carrying out offshore exploration and exploration in remote areas.

(c) Some non-oil-producing countries have used aid funds to carry out preliminary geological and seismic surveys, in the hope of finding evidence of geological potential that would attract oil companies willing to carry out drilling. This approach has been adopted, for example, by Equatorial Guinea, Guinea-Bissau, and Jamaica, the first two with World Bank assistance in carrying out seismic work.

(d) A number of countries, including such established oil producers as Indonesia, Malaysia and Peru, have revised contract terms so as to meet the demands of transnational corporations. This has happened particularly in the case of those host countries which had production-sharing arrangements with United States-based oil companies. In the light of rulings by the United States Internal Revenue Service the host countries have had to modify their tax regimes significantly so as to enable United States companies to continue receiving tax credits at home. This example indicates the difficulties which developing countries face in trying to shape autonomous policies relating to the oil industry.

600. Although harder to document than the geographic redirection and sectoral diversification of the activities of the oil companies, their attempt to shift control of the industry to those sectors in which host governments have not made gains seems to be an important factor. A major locus of effective control, from the point of view of the developing countries, is the area of finance, especially for the high-risk exploration phase of oil activity. Previously, the major oil companies were the primary source of exploration funds; only a few countries (e.g., China and Mexico) managed to sustain large-scale domestic exploration efforts for many years without significant participation by foreign companies. Even though production facilities in many countries have been nationalized, countries without large oil-generated surpluses still face great difficulties in pursuing exploration, unless they adopt policies regarding subsequent production which are acceptable to the major oil companies. Thus, control over exploration finance still gives the companies an important bargaining edge in dealing with many host countries.

601. In the past few years, a number of international institutions have offered alternatives to the transnational corporations as sources of finance and technology in the field of energy for developing countries (Table V.4). The largest of these efforts is that of the World Bank, which in 1979 began a programme of lending for petroleum exploration and development. More than $1 billion in funds had been committed under this programme by mid-1982, including loans in excess of $100 million for the development and further exploration of already-identified reserves in India, Pakistan and the United Republic of Tanzania. In addition, the World Bank has established a programme of "exploration promotion" loans, of 1 to 15 million dollars, with the object of enabling developing countries to hire outside

Table V.4. External loan commitments and disbursements to oil-importing developing countries for commercial energy development, 1978 a/

(Billions of dollars)

	Official		Private		Total	
	$bn	Per cent	$bn	Per cent	$bn	Per cent
Commitment						
Coal	0.04	57	0.03	43	0.07	100
Oil and gas	0.32	21	1.21	79	1.53	100
Electric power	4.07	52	3.80	48	7.87	100
Total	4.43	47	5.04	53	9.47	100
Disbursements						
Coal	0.02	50	0.02	50	0.04	100
Oil and gas	0.19	13	1.23	87	1.42	100
Electric power	1.64	28	4.20	72	5.84	100
Total	1.85	25	5.45	75	7.30	100

Source: World Bank, Energy in the Developing Countries, 1980, p. 11.

a/ In current prices. Includes external loans made to oil importing developing countries for energy industries (coal mining; oil and gas production, refining and transport; and electric power production and distribution). The official sources covered are bilateral and multilateral loans and export credits; the private sources covered are bonds, commercial bank loans and suppliers credits.

firms to assist in obtaining, assembling and interpreting geophysical data, establishing appropriate institutions, and drafting oil laws and model contracts. A substantial proportion of these funds has been directed toward countries in West Africa. In addition, the regional development banks and some Arab development banks have recently begun lending funds for petroleum development.

602. In the light of the needs of the developing countries for finance, especially at the exploration stage, and of the cutback in spending by transnational corporations for exploration for petroleum in developing countries, the volume of funds being made available through international agencies will not suffice to permit exploration on an adequate scale. The World Bank estimates the average annual investment which oil importing countries will have to make in the various forms of commercial energy during the 1980s at $14 billion (in 1980 prices).

603. Just as the demand for finance continues to give the transnational corporations a great deal of bargaining power, control over distribution and marketing channels remains largely in the hands of the major oil companies, despite the growing importance in recent years of direct government-to-government oil sales and sales by State oil companies through the international trading companies (which are themselves often subsidiaries of such corporations).

4. Transnational corporations and energy-related technologies

604. Although the control of advanced technology is frequently cited as one of the means by which transnational corporations dominate the oil industry, in most energy

sectors, and especially in oil, they do not hold a monopoly of the techniques required for exploration and production. This, however, is not necessarily true in the case of some new technologies. In the case of solar energy, for example, the oil companies have been pursuing a strategy of acquiring companies which have developed the relevant technology.

605. Whereas the major oil companies have been dominant in exploration, production and distribution for many years, there are many other potential sources of technology supply which can be tapped by developing countries. These alternative suppliers are active in all stages of the industry, including exploration, production, refining and distribution. They include specialized contractors, engineering and construction companies, ship owners and shipyards, and consultants.

606. In general, a review of oil and gas technology indicates that developing countries are not necessarily dependent on the major oil companies, provided that two conditions are fulfilled. First, the countries must have some means of financing the purchase of technical services from the specialized contractors. Countries which are already producing oil in substantial amounts should have no difficulty in obtaining finance, but for countries without established production, the only common alternatives to turning to oil companies for risk capital involve borrowing from a lender prepared to accept a high risk (e.g., from the World Bank) to finance exploration activity or finding sources of bilateral or multilateral financial assistance.

607. Secondly, the effective use of the specialized technical contractors requires, on the part of the host country, a trained and experienced cadre of technical personnel who have sufficient expertise and practical experience to be able to bring together a variety of suppliers of technology, engineering firms, and construction companies, in order to carry out a major project. Even though the required technology is frequently available, it cannot be used by a developing country unless the country itself has the managarial capability to supervise technology suppliers.

608. Accordingly, the effective control of technology by the transnational corporations, at least in the petroleum industry, results not so much from a monopoly of technological knowledge as from limitations in developing countries as regards access to alternative sources of finance as well as the organization and management exploration projects and production facilities. The success of efforts to reduce the control exercised by transnational corporations depends on the ability of personnel of State oil companies in the developing countries to acquire greater technological knowledge.

B. Transnational corporations and primary export commodities

609. In the primary sector, apart from energy, the activities of transnational corporations are concerned with non-fuel minerals, agricultural export crops, and food. As will be shown below, the pattern of control by transnational corporations varies considerably from commodity to commodity and from one country to another. It is nevertheless clear that, although a noticeable shift has taken place in favour of producing countries in the ownership of production facilities, transnational corporations continue to dominate downstream processing and marketing. As a result, countries producing non-fuel minerals and agricultural commodities receive a relatively small share of the proceeds of the export sales of

these products, sometimes not exceeding one tenth of the final price paid by consumers.

610. Developing countries have to contend with two problem areas: (a) persistence of sharp fluctuations of primary commodity prices and deterioration of their terms of trade; and (b) unfavourable distribution of export benefits between producing countries and transnational corporations. The first set of problems is due largely to the current weakness of the international economy beset by deep recessions and protectionist policies in consumer countries. Solutions to such problems are consequently linked to the evolution of the world economic situation and to measures adopted by governments and by international institutions. The second problem concerns the relations between transnational corporations and host countries. Efforts to improve the position of the latter have been and continue to be made through negotiations and through other avenues.

611. In their attempts to increase their benefits, producing countries have employed a variety of measures aimed at consolidating their control over the production and sale of their primary commodities. The measures include the formation of producers' associations, negotiation of international commodity agreements, transfer of ownership of assets from transnational corporations to national enterprises, increased processing prior to export and the use of joint ventures and non-equity arrangements with transnational corporations, independent firms and State enterprises. While such measures have led to a greater degree of national ownership and control and an improvement in the benefits accruing to producing countries, they have also created some apprehension on the part of foreign investors who have become increasingly reluctant to invest in resource projects.

1. Non-fuel minerals

612. In this section, non-fuel minerals are first discussed in terms of their importance to developing countries. This is followed by a brief description of transnational corporation involvement in selected non-fuel mineral industries, notably bauxite-alumina-aluminium, copper and tin; and a discussion of three key issues, namely, (a) marketing, (b) mineral processing and (c) financing mining projects. The section ends with a brief review of some recent developments.

613. Most non-fuel minerals exploited in developing countries are primarily a source of foreign exchange earnings and government revenue. In 1979, the eight leading non-fuel minerals generated $14 billion in export revenues for these countries. 7/ To the extent that local processing increases backward and forward linkages, the production of non-fuel minerals can also make a significant contribution to the producing countries' development efforts. For the most part, however, local processing is regarded mainly as a means of increasing the value added of mined products before they are exported. 8/

614. As a group, developing countries are important suppliers of minerals. In 1980, their share of world exports of the principal minerals ranged from 46 per cent in the case of iron ore to 85 per cent in the case of tin. 9/ Projections to 1990 show very little, if any change in these shares. 10/ Many developing countries rely heavily on sales of non-fuel minerals for a substantial proportion of their export earnings. However, they receive only a small share of the price paid by consumers for the finished product. It has been roughly estimated that only one tenth to one seventh of the prices paid by consumers accrue to the producing countries. 11/

615. The reason for this low rate of return is the inability of these countries to exercise effective control over processing, marketing and distribution. According to one estimate, only about 30 per cent of all minerals mined in developing countries have been processed in the same countries during the past 30 years. 12/ This ratio has been changing gradually in recent years. 13/ Such aggregate figures may obscure differences among individual minerals. Thus, the degree of processing of tin and copper prior to export is significantly higher than it is for bauxite, iron ore and zinc. But it remains far below the expectations and objectives of producing countries. Similarly, marketing and distribution of mineral products continue to elude these countries.

(a) The role of transnational corporations in the non-fuel minerals sector

616. Any examination of the production-distribution chain of non-fuel mineral industries leads inevitably to a discussion of the crucial role of transnational corporations in the chain. Their control can be very effective, as in the case of bauxite-alumina-aluminium where the leading firms are vertically integrated, or relatively diffuse as in the case of copper. In general, transnational corporations have been moving away from the ownership of production facilities under pressure from the governments of producing countries. Instead, they have sought to maintain their control over processing, shipping, marketing and distribution. While the transnational corporations have been successful in utilizing their traditional advantages in capital, technology and access to international markets, producing countries have been unable to acquire countervailing advantages, individually or collectively.

617. In the tin industry, developing countries have made significant advances in increasing their control over extraction and smelting. In 1981, developing countries produced 83 per cent of the world output of tin concentrates outside the socialist countries, up from 66 per cent in 1975. The participation of transnational corporations has been limited to minority equity shares or non-equity agreements with State-owned enterprises. The leading producers are Bolivia, Indonesia, Malaysia and Thailand, which together accounted in 1981 for 77 per cent of world production of tin concentrates and for 78 per cent of tin metal, followed by Brazil, Nigeria and Zaire with 6 per cent of the world output of concentrates and 5 per cent of tin metal. 14/ During the past 20 years, these countries have been able to increase smelting within their borders from about 50 per cent to over 90 per cent of extracted tin concentrates. 15/ However, private mining companies continue to own a substantial share of smelting capacity.

618. Four major transnational corporations continue to play an important role in the tin industry: the Patiño Group, Preussag AG, Overseas Chinese Banking Group of Singapore and Royal Dutch/Shell (through Billiton). Together, they account for about one half of world smelting capacity. 16/ In addition, they continue to be influential in marketing and financing. The Patiño Group and Preussag AG operate smelters in Australia, Brazil, Malaysia and Nigeria, while Royal Dutch Shell continues to hold mining and smelting facilities in Indonesia, Malaysia and Thailand. The Singapore Group operates mainly in Malaysia. Other companies involved in tin smelting include Rio Tinto Zinc (United Kingdom), Gulf Chemicals (United States) and Metallurgie Hoboken-Overpelt (Belgium).

619. As in the case of tin, the structure of the international copper-mining industry has changed considerably over the past 30 years. In 1948, the seven

leading transnational copper-mining corporations - Kennecott Copper, Anaconda, Phelps Dodge and the Roan-AMC Group (all of the United States of America), the Anglo-American Group (South Africa), Union Minière (Belgium) and International Nickel (Canada) - accounted between them for 70 per cent of world production, excluding that of the socialist countries. However, the total share of these companies (or their successors) declined to 60 per cent in 1960, 34 per cent in 1970, and 23 per cent in 1981 (Table V.5). Their activities in developing countries were progressively limited to minority equity and non-equity forms of association. The continuing lessening of concentration in the international copper industry is attributable to several factors. First, the State-owned corporations have become increasingly active in the production and processing stages of the industry. The takeover of private holdings by the governments of several developing countries, such as Chile, Peru, Zaire and Zambia, contributed materially to this change. A second and no less important factor was the growth of smaller mining companies that already possessed some of the managerial expertise and access to capital needed for copper development. 17/

Table V.5. Copper production of the seven leading corporations, 1948-1981

(Thousands of metric tons)

	1948	1960	1970	1981
Kennecott (USA)	514	571	519	378
Asarco (USA) a/	-	-	72	327
Phelps Dodge (USA)	247	234	413	287
Newmont (USA) a/	-	-	-	228
Anglo-American Group (South Africa)	118	392	153	185
Anaconda (USA)	362	476	242	135
Inco (Canada)	118	155	177	132
Roan-AMC Group (USA) a/	134	241	338	-
Union Minière (Belgium) a/	171	331	-	-
Total, seven companies	1,664	2,400	1,914	1,672
Percentage of world production	70	60	34	23

Source: United Nations Centre on Transnational Corporations, based on American Bureau of Metal Statistics, Yearbook, various issues, and Mining Journal Annual Review, June 1982.

a/ Asarco and Newmont joined the seven leading firms in 1970 and 1981, respectively. Union Minière was nationalized by the Government of Zaire in 1967 and Roan-AMC was nationalized by the Government of Zambia in 1970.

620. Taken as a whole, the developing countries refine over half their copper output locally, although the proportions vary widely among producing countries. In 1981, Zambia refined virtually all its copper, Chile close to 80 per cent, Peru 64 per cent and Zaire 30 per cent. In contrast, Indonesia, Papua New Guinea, and the Philippines have virtually no local copper processing facilities. 18/

621. The bauxite/aluminium industry, outside the socialist countries, continues to be dominated by six large corporations, although there has been some diversification of ownership during the past 25 years. 19/ The three oldest members of the group are: Aluminum Company of America (United States of America), Péchiney-Ugine-Kuhlmann (France) and Swiss Aluminium (Switzerland). The other three members of the big six are based in North America: the Aluminium Company of Canada (Canada), Reynolds Metals Company and Kaiser Aluminum and Chemical Corporation (United States of America). In 1982, these six companies owned 46 per cent of world bauxite production capacity, 50 per cent of alumina and 44 per cent of aluminium. Other large but more diversified transnational corporations - mainly Rio Tinto Zinc, Noranda and Billiton - owned 20 per cent of bauxite, 22 per cent of alumina and 21 per cent of aluminium. State enterprises in developing countries accounted in the same year for 19 per cent of world bauxite output, 6 per cent of alumina and 5 per cent of aluminium. If the socialist countries are excluded, the share of all transnational corporations in world production becomes 77 per cent for bauxite, 87 per cent for alumina and 83 per cent for aluminium (Table V.6).

(b) Main issues

(i) Marketing

622. The gradual transfer of ownership and control of production and, to some extent, processing facilities from transnational corporations to State-owned enterprises in the developing producer countries has not given most of these countries much greater revenue or greater shares in export earnings, for a number of reasons. First, the last two recessions have kept demand and prices at depressed levels. Secondly, developing countries have had little success in penetrating or influencing the international markets for most non-fuel minerals. In fact, marketing has been the critical link in cases where the value added is highest but where control remains largely in the hands of transnational corporations, sometimes in association with trading companies. There are, however, important differences among the markets for different minerals.

623. In the case of tin, the establishment of tin smelters in producing countries might normally be expected to enable these countries to exercise greater control over the marketing of tin, since tin metal may be sold directly to final consumers. But this expectation is tempered by the process of price formation in the international tin markets of Penang (Malaysia), New York and London and the role of transnational corporations in these markets. Price fluctuations in the three markets do not respond to supply and demand alone. They are influenced by two non-market factors: the General Service Administration (GSA), which is responsible for disposals from the stockpile held by the United States of America, and the International Tin Council (ITC), whose principal function is to stabilize the world tin market in conformity with the International Tin Agreement. The two non-market factors tend to work in different ways. The objective of the ITC is to regulate production in countries parties to the Agreement and to buy and sell tin in such a way as to stabilize prices, while GSA disposals have a net downward effect on prices. Since the United States stockpile is considerably larger than the buffer stock of the ITC, the influence of the GSA on tin prices has been greater than that of the Tin Council. 20/

Table V.6. Ownership of world aluminium, alumina and bauxite capacities in 1982

(Thousands of tons)

	Aluminium		Alumina		Bauxite	
	Total capacity	Percentage of world capacity	Total capacity	Percentage of world capacity	Total capacity	Percentage of world capacity
The big six transnational corporations	7 962	44.5	20 113	50.4	51 789	46.3
Other transnational corporations and private investors	3 801	21.2	8 642	21.7	22 606	20.4
Governments of developed market economy countries	1 497	8.4	1571	3.9	323	0.3
Governments of socialist countries	3 730	20.9	7 026	17.6	15 600	13.9
Governments of developing countries	893	5.0	2 523	6.3	21 622	19.3
Total	17 883	100.0	39 875	100.0	111 940	100.0

Source: Transnational Corporations in the Bauxite/Aluminium Industry of Developing Countries, CTC/ECA Joint Unit, 1983, p. 17.

624. The influence of transnational corporations is also brought to bear on the operations of the three tin markets. The London Metal Exchange (LME) is, for historical reasons, the most important of the three markets in determining tin prices. With respect to tin transactions, the largest and most influential members of the LME are Rudolf Wolff and Co. (owned by Noranda of Canada), Metallgesellschaft (Federal Republic of Germany) and Billiton Enthoven Metals (owned by Royal Dutch Shell). 21/ By contrast, no mining or smelting company from the developing tin producing countries is represented in the LME's ring of dealing members. 22/ As a result, the prices of tin metal are determined by mining and trading companies based in the consumer countries. 23/

625. The copper industry is characterized by a dual price structure: the "producers" prices, which are set by the major private producers in developed market economies to protect their customers from sharp fluctuations, and the market prices as reflected in dealings on the London Metal Exchange and the New York Commodity Exchange (COMEX). The producers prices have been criticized by governments of copper-exporting countries for being set below the LME and COMEX prices. 24/ In the late 1970s, the leading copper firms moved their prices closer to the LME and COMEX quotations.

626. The international market for bauxite, alumina and aluminium differs materially from the tin and copper markets. Since the six major transnational corporations

concerned are vertically integrated, most of the bauxite and alumina and a substantial amount of the aluminium produced by these corporations are traded among their subsidiaries. In the absence of an international market, there are no arm's length prices for bauxite and alumina. However, producer countries have been able to influence the prices of bauxite to some extent through the International Bauxite Association (IBA), which controls about three quarters of world bauxite production (excluding socialist countries). The principal instrument used by the IBA has been to set a minimum price for reference purposes, with appropriate adjustments for grade. The IBA also recommended that the minimum price should be set, pound for pound, at 2.5 to 3 per cent of the price of aluminium ingot quoted in the North American market. With the exception of Australia, the IBA member States have tended to adopt these price recommendations. 25/

(ii) Mineral processing

627. One of the important objectives of mineral producing developing countries has been to increase downstream processing of extracted minerals prior to export. The achievement of this objective is not, however, an easy matter. In some cases it may not be economically advantageous to build costly smelters if electrical energy is not available at low cost - as it has to be for aluminium smelters - or if few employment opportunities are created by such further processing, for then it would be out of keeping with the local factor endowments to undertake such ambitious schemes. In other cases, transnational corporations may not be willing to commit new investments in the host countries.

628. The instruments used by producing countries to encourage a higher degree of local processing are very diverse and include a number of administrative, fiscal and contractual mechanisms. Concessional tax rates, special allowances, accelerated depreciation and the like are among the incentives commonly used to induce transnational corporations to invest in processing plants. Sometimes, the imposition of high taxes on exported raw materials can have the same effect. Increasingly, however, particularly with respect to new mining projects, the establishment of processing facilities forms part of the contractual agreement negotiated by the host government and the foreign firm. In the case of long-established mining projects, the renegotiation of old agreements has come to be widely used as a way of obtaining better terms for the host country by introducing new clauses regarding the establishment of processing facilities. In other cases, special provisions requiring the mining companies to reinvest part of their earnings in the host country also tend to promote local processing.

(iii) The level of activity in developing countries

629. It has been suggested that the share of developing countries in world exploration for solid minerals and in mineral development has undergone a sharp decline in recent years. This is attributed to a marked reduction in direct investment by foreign mining companies in developing countries, and a concentration of exploration and development in the industrial countries. 26/ It has been suggested further that these developments are in turn due to concern on the part of the mining companies as to whether, in the event of successful exploration, they will be allowed by the host countries to earn an adequate after-tax return on their equity. There is also said to be a fear, on the part of the mining companies, of nationalization without adequate compensation.

630. These views have, however, been challenged. 27/ While it is not denied that foreign direct investment in developing countries has declined, it is pointed out

that the share of developing countries in solid mineral activity in the world market economy, has been rising. This rise is reflected in the fact that the developing countries' share of the output of seven major minerals (bauxite, copper, iron ore, lead, nickel, tin and zinc) in the world market economy rose from 41 per cent in 1960 to 45 per cent in 1970 and 48 per cent in 1978, remaining at the 48 per cent level in 1981. 28/ It is suggested that the effect of the reduction in foreign direct investment was offset by increased activity on the part of domestic, especially State-owned, companies in developing countries. These companies were able to implement their mineral projects by substituting loans for equity, and by entering into contractual arrangements with foreign mining companies for exploration and development. This activity was seen as advantageous by the foreign mining companies as well, since they were thereby able to participate in the process of exploration and development while limiting their exposure to losses in the event of nationalization. In addition, the capabilities of domestic mining companies in developing countries have been considerably enhanced during recent years. Further research is clearly required to determine which of the above two contrasting views is correct.

(iv) New developments

631. Two recent developments are noteworthy. First, governments and enterprises of oil producing countries have become increasingly involved in the mineral industry by setting up processing operations (e.g., aluminium smelters in Bahrain and Dubai), funding a few mining projects in some countries and acquiring equity in certain existing ones. 29/ Second, major international petroleum companies have also become increasingly involved in the mining industry by acquiring long-established mining companies and participating in joint ventures for the undertaking of mining projects. 30/ The entry of governments of oil producing countries and of oil companies into the mining sector provides mineral producing countries with alternative negotiating partners.

2. Agricultural commodities

632. This section examines the involvement of transnational corporations in the production, processing and marketing of selected food commodities (bananas, coffee and sugar) and non-food agricultural products (cotton, tobacco and tropical hardwood). This is followed by a brief review of producer countries strategies in dealing with transnational corporations.

(a) Involvement of transnational corporations

633. In the case of agricultural as in that of other primary commodities, increased ownership and control of production by host countries have not significantly reduced their dependence on transnational corporations as regards access to technology, markets and distribution channels. It is estimated that in the late-1970s, approximately 80 per cent of the exports of agricultural commodities from developing countries remained under the control of such corporations (Table V.7).

634. The role of transnational corporations in the production, processing and export of agricultural commodities varies. Typically, local producers own production facilities and carry out some processing; transnational corporations control most of the final processing, marketing and distribution.

Table V.7. Share of developing countries' exports controlled by transnational corporations, 1980

	Total exports (millions of dollars)	Percentage marketed by 15 largest transnational corporations a/
Food commodities		
Wheat	16,556	85-90
Sugar	14,367	60
Coffee	12,585	85-90
Corn	11,852	85-90
Rice	4,978	70
Cocoa	3,004	85
Tea	1,905	80
Bananas	1,260	70-75
Pineapples	440 b/	90
Agricultural raw materials		
Forest products	54,447	90
Cotton	7,886	85-90
Natural rubber	4,393	70-75
Tobacco	3,859	85-90
Hides and skins	2,743	25
Jute	203	85-90

Source: Raw Materials Report, Vol 1, No. 3, Stockholm, Summer 1982, p. 22. Based on UNCTAD data.

a/ In most cases, three to six transnational traders account for the bulk of the market.

b/ Four-fifths consists of canned pineapples and one-fifth of fresh pineapples.

635. It is in marketing operations that the transnationals retain their strongest hold. The relative weakness of the bargaining power of the developing countries is due in part to the structural characteristics of the market where a multiplicity of competing sellers are pitted against a relatively small and organized group of buyers, often acting in collusion with one another. On the other hand, given the market characteristics of the food industry in the developed countries, which are the main external buyers of agricultural produce, it is likely that, because transnational corporations largely control the marketing process, the volume of agricultural exports from developing countries is bigger than it would be without the intervention of such corporations. The oligopoly power of transnational corporations as buyers is limited where the demand for the final product is price elastic, as a result, for example, of the competition of substitutes, or where countervailing power is successfully exercised by trading organizations and marketing boards of developing countries.

636. In the case of bananas, for example, marketing and distribution are principally in the hands of three transnational corporations which are based in developed countries and which control about half of the banana trade: United Brands, Castle and Cook and Del Monte. These firms have between them nine plantation subsidiaries in seven countries: Costa Rica, Ecuador, Guatemala, Honduras, Nicaragua, Panama and the Philippines. In addition, they have associate-producer and supply-contracting arrangements in the same countries and also in Colombia and Suriname, and procurement agencies in a number of African countries. They also own integrated shipping lines and have ripening and distribution affiliates in North America, Europe and Japan. 31/ The remainder of the international marketing network for bananas is controlled by four European companies and six producer-country agencies and groups. The European companies are shipping and trading concerns linked contractually to associate producers and other suppliers in producer countries.

637. It has been estimated that the average gross returns to banana growers from 1970 to 1978 were equivalent to about 12 per cent of consumer prices whereas the gross margins to ripeners were 20 per cent and retail gross margins were about 30 per cent. The remaining 38 per cent was absorbed by charges for transport, insurance and taxes. 32/

638. In the tropical beverage industries, transnational corporations are important to developing countries both as buyers of the raw materials and as processors and distributors of finished products. They transform the coffee, cocoa and tea grown in developing countries into everyday consumer goods for the markets of the developed countries. In the coffee industry, 20 of the major food processing firms and various specialist firms are significant producers. The eight largest processors control 55 to 60 per cent of world sales, with the two leading companies, Nestlé and General Foods, together holding an estimted 20 per cent of the world market. Seven of the eight largest firms in the industry operate foreign processing plants, mostly for making soluble coffee. Sales of this product are extremely concentrated: in ten European countries and Japan, the four leading firms account for an average of 90 per cent of sales. 33/

639. Such a high concentration makes it exceedingly difficult for new firms to enter the coffee market in developed countries. This difficulty is compounded by the extensive use of product branding and differentiaton by transnational corporations. Available data show that the over-all advertising-to- sales ratio for coffee ranges from 3 to 10 per cent in major country markets. 34/

640. For many years, the primary sugar industry shared with bananas the image of the prototypical developing country export industry dominated by foreign capital. The situation has changed substantially. By the late 1970s, most of the producing countries had established State run sugar monopolies, while national entrepreneurs, with or without State participation, controlled the industry in others. Bangladesh, Burma, Chile, Cuba, Egypt, Fiji, Guyana, Peru and Turkey have established national sugar monopolies. In Argentina, Barbados, Brazil, India, Mexico, the Philippines, Thailand and Venezuela, national entrepreneurs dominate the industry, although State agencies are also active. Of about 1,500 commercial cane sugar mills in developing countries, the transnational corporations appear to control no more than 20 to 30 operations. This shift of integrated sugar production is virtually complete. Their participation in sugar production now takes the form of joint ventures, licensing agreements and management contracts. Their influence is strengthened to some extent by the adoption of large-scale, sophisticated and capital-intensive methods of production.

641. As regards non-food agricultural commodities, the role of transnational corporations and the market structures vary from one commodity to another. In the tropical hardwood industries, the activities of transnational corporations have been increasingly concentrated in the South-East Asian region which, in 1980, accounted for over 80 per cent of world exports of roundwood. The remarkable growth of production in that region during the past 20 years coincided with the rapid depletion of commercially exploitable forest resources in Africa, which accounts for 15 per cent of world exports of roundwood, produced largely in the Ivory Coast. The share of Latin America in world roundwood exports has remained below 1 per cent for the past ten years. 35/

642. The role of transnational corporations in tropical hardwood production has undergone substantial changes in the past two decades. In the Philippines, with the expiration of the Laurel-Langley Agreement in 1974, American firms could no longer hold timber licences. 36/ Those that did not fully divest themselves of their holdings after 1974 remained in the industry as minority partners in joint ventures controlled by Filipino firms. In Indonesia too, since 1975, government policy has evolved to the point where only Indonesian nationals are eligible for the award of licences for cutting timber. Thus since 1975 concessions have been granted only to State-owned enterprises and locally controlled private firms, both of which may allow transnational corporations to enter as contractors or through marketing agreements, a practice widely used by Japanese firms in Malaysia and Indonesia. Companies with concessions in Indonesia dating from before 1975 may retain exploitation rights until 1995 (at the latest), provided that they offer for sale to local shareholders at least 51 per cent of equity by 1985. In the Ivory Coast, transnational corporations engaged in forest industries are subject to the same indigenization policies which apply to the other sectors. Participation by national enterprises must be at least 51 per cent of total equity. Thus, transnational corporations are joint venture partners in the production of close to half the roundwood and processed timber output. However, the export and marketing of roundwood continues to be dominated by European corporations. 37/ In sum, although the transnational corporations remain heavily involved in forestry, the form of involvement has changed considerably since the 1950s. They continue to exercise control by means other than ownership, as in the case of fuel and non-fuel minerals. It is not uncommon for foreign enterprises to receive long-term timber concessions of the older, traditional form. Increasingly, new long-term concessions in which transnational corporations have an interest take the form of the grant of timber rights to nationals of the host country, with such corporations as joint venture partners.

643. In trade, transnational corporations continue to play a dominant role. The leading firms are based primarily in the United States, the United Kingdom, and to a lesser extent in France, Italy and Japan. By 1980, they still marketed over 90 per cent of world exports of tropical forest products. This situation affected the distribution of gains between producing countries and transnational corporations. In Indonesia, for example, up to the mid-1970s, the retained value of timber export earnings was equivalent to only 25 per cent of the gross value of these earnings. By 1978, the proportion had increased to 30 per cent. 38/

644. In the tobacco industry, two types of transnational corporations are involved: manufacturers of cigarettes and other tobacco products and international leaf dealers engaged in buying, processing, packing, storing tobacco leaf for resale and shipping to manufacturers. The transnational leaf dealers collect fees and commissions from manufacturers for their services. The leaf buyers perform the

function of middlemen between growers and primary processors, on the one hand, and manufacturers on the other. In both activities the concentration and market domination of transnational corporations are high. Although developing countries supply 55 per cent of world leaf tobacco, only a small amount is exported in processed form.

645. At present, tobacco manufacturing in the developing countries and in the developed countries is largely dominated by four large corporations: British American Tobacco, Philip Morris, R.J. Reynolds and American Brands. Together, they accounted in 1981 for close to 50 per cent of total world cigarette sales. 39/ However the 50 per cent figure does not fully reflect the strong position of transnational corporations, for they are increasingly active in licensing, selling, and co-production relations with other firms, including State monopolies and producers in socialist countries.

646. About 85-90 per cent of leaf tobacco enters international trade under the direct or indirect control of approximately six transnational leaf buyers: Universal Leaf, Transcontinental Leaf Tobacco Company (a subsidiary of the Standard Group), Debrill Brothers and the fully-owned BAT subsidiary, the Export Leaf Tobacco Co. with its regional extensions, the Imperial Tobacco Leaf subsidiaries, Kulenkampff and A.C. Monk and Co. The Universal Leaf Tobacco Co. is the world's largest leaf dealer and processor with annual sales of $1,039 million (1981). 40/

647. As in other concentrated industries, extensive product differentiation and heavy advertising and promotional expenditures constitute formidable barriers to entry into the tobacco industry.

648. International trade in cotton is dominated by 15 transnational corporations: two in Western Europe, five in Japan and eight in the United States. Most of these big cotton traders are also dominant in the markets for other commodities: Volkart for coffee; Cargill and Bunge for grains and soybeans; Ralli Brothers for tropical hardwoods, grains, coffee, tea, rubber, metals and hard and soft fibres. Such diversification reduces the dependence of these corporations on cotton and strengthens their bargaining capability. Their bargaining power is further strengthened by backward and forward linkages (e.g. Ralli and Volkart in ginning; Bunge in plantations, spinning and weaving; and ownership of warehousing by almost all), and in addition, they all have access to economic and trading intelligence which enables them to conduct their transactions with a speed and flexibility unmatched by national marketing institutions. 41/ Their large financial resources and tightly protected marketing channels, notably in the New York Cotton Exchange Market, further reinforce their bargaining position vis-à-vis developing country trading organizations. 42/

(b) Strategies of producer countries

649. Developing countries have endeavoured to increase their benefits through the formation of producers' associations, marketing boards and State trading organizations. As yet, however, these efforts have had only limited success in stabilizing prices or influencing the markets in industrial countries, as the experiences of banana and coffee producers, for example, show.

650. The leading banana producers established in 1974 the Union of Banana Exporting Countries (Unión de Paises Exportadores del Banano, UPEB) with a view to harmonizing their levies, pricing and output policies. But the non-participation

of Ecuador and the resistance of transnational corporations frustrated collective measures envisaged by UPEB. As a result, its function has been virtually limited to the exchange of information on the banana industry among the member States. 43/

651. Collective efforts by coffee producers have also run into strong resistance by transnational corporations and their home governments. Thus, the formation of the Inter-African Coffee Organization (1969), World Coffee (1973), Suaves Centrales (1974), the Bogotá Group (1978), and Panacafe S.A. (1980) proved to be ineffective in stabilizing coffee prices, despite their success in penetrating the New York and London commodity exchanges. 44/ Likewise, the International Coffee Agreement, which became effective in 1962 and was renegotiated in 1968, 1976 and 1980, has had only limited success in stabilizing prices, the reason being (according to an UNCTAD study) that export quotas were used as the principal regulatory mechanism. It is argued that export quotas would need to be supported by a complementary system of national stocks in order to provide an adequate cushion for the maintenance of the agreed ceiling price. 45/

652. Efforts by producer countries to market processed coffee directly in consumer countries, through exports or the purchase of local enterprises, have not met with much success so far. The specific obstacles to entry into downstream distribution channels are the consumer countries' tariff protection against processed forms of coffee, difficulties in gaining access to those channels and defensive responses from leading manufacturers of brand coffee products.

653. In sum, the attempts made by developing countries to derive greater benefits from the export of agricultural commoditites have run into several obstacles. Perhaps the most important is the difficulty of gaining access to the markets of developed countries. The barriers to entry into these markets are highest for processed farm products. They include the oligopolistic structures of many markets and support policies practiced by developed market economy countries, reflected in tariffs that escalate with the stage of processing and in non-tariff barriers. The marketing and distribution of largely unprocessed raw materials present producing countries with similar difficulties.

654. Efforts to encourage the conclusion of more international commodity agreements have had only limited success thus far. The situation might change as a consequence of the implementation of the UNCTAD Integrated Programme for Commodities and the operation of the Common Fund.

C. Transnational corporations in the food sector

655. Although in the 1970s there was evidence of significant changes in the agro-food systems of a number of developing countries, national and international inequalities in food resources have persisted. The continued precarious existence of a vast malnourished and growing population poses one of the more serious challenges to development in the 1980s. 46/ An important reason for this widespread undernourishment is that the poor cannot afford to buy enough food. In some developing countries, however, notably in some of the most densely populated areas of South Asia, remarkable advances in food production have been made, indicating the many possibilities which exist for ensuring an adequate food supply.

656. In general, however, FAO reports 47/ that there are many constraints limiting improvements in productivity, particularly that of small farmers. Land remains so unequally distributed in developing countries that many farms are too small to produce efficiently. Supplies of inputs and services are insufficient and access to them most unequal. Resources devoted to research, training and extension services are very limited. Agricultural credit is not always available on reasonable terms.

657. The effects of lagging production in many developing countries show up clearly in the figures concerning international trade in agricultural products. The share of developed countries in exports has increased while the previously positive agricultural trade balance of the developing countries has been whittled down. In some developing countries, food imports have grown twice as fast as their agricultural exports. 48/ Developing countries as a whole have become net importers of such staples as cereals and dairy products.

658. Traditionally, transnational corporations have been associated in developing countries with the production of and trade in raw agricultural products and with commercial operations. The organization of agricultural production itself took different forms, depending on the commodity and the country concerned. In the production of most tropical products, for example, transnational corporations limited their operations to trading and commercial functions. In some cases, linkages between peasant production and foreign interests were established, notably through State-sponsored producers' associations. In other countries, foreign firms operated directly from estates or plantations. Through plantation activities, there was a complete vertical integration of the activities of corporations dealing with commodities such as sugar, tropical fruits, fish and oils. In the case of other commodities, such as meat, there was a mixed participation, involving commercial stages as well as primary processing.

659. The food situation can be considered from two points of view. Exports of certain agricultural products contribute to the foreign exchange earnings of the country concerned, and part of these earnings can then be used for paying for imports of food staples and agricultural inputs. At the same time, it is recognized that a lasting solution to the problems of food and agriculture in developing countries depends on their progress toward self-reliance. 49/ To find the proper balance between agricultural production for the world market and food production for domestic consumption is the great challenge for developing countries.

660. It should be noted that transnational corporations have reduced the scale of their direct agricultural production in developing countries and have diversified into other food allied industries. In some of the cases where their direct ownership of estates or plantations has been curtailed, the companies have come to play an indirect role in agricultural production through contract production. In other cases, they have used their expert knowledge of methods of production to provide consulting services to national enterprises. The primary and growing role of transnational corporations in host countries is in pre-production industrial fields and in post-harvest processing and trading. Pre-production sectors are the industries of genetic stock research, consultancy, agro-chemicals and agricultural machinery. The principal post-harvest sectors in which such corporations are active are trade in farm products, food and beverage processing, and food retailing. 50/

1. Transnational corporations in pre-production industries: agricultural chemicals

661. The agri-chemical industry was one of the fastest growing segments of the chemical industry during the 1970s, with world shipments rising from $2.5 billion in 1970 to approximately $11 billion in 1979. 51/ The pesticide industry in developed countries has entered a mature phase in which the volume of production will tend to follow the cycles found in every activity concerned with agriculture. In contrast, leading firms consider that developing countries may offer the greatest scope for a future expansion of the industry, for the potential growth rate of annual sales in those countries is estimated at 15-20 per cent.

662. The chemical industry produces three types of products for agriculture: herbicides, insecticides and fungicides. Herbicides account for 43 per cent of the total market, insecticides for 39 per cent and fungicides for 18 per cent.

663. In Malaysia, transnational corporations accounted for 75 per cent of the 1978 retail sales of pesticide, with ICI, Bayer AG and Péchiney-Ugine-Kuhlmann SA and Monsanto as important suppliers. 52/ In Indonesia, Bayer, ICI, Dow and Chevron accounted for over 70 per cent of total pesticide production in 1978. A large proportion of the ingredients of the pesticide product is imported from the parent company.

664. Because pesticides for specific crops are commonly a combination of a few active ingredients that are effective against several pests at the same time, leading firms are selling complementary products to each other for formulation or engaging in reciprocal licensing for this purpose. Reciprocal marketing, in which one enterprise uses another's marketing channels and distribution networks, is an extensive practice among leading firms. 53/

665. During the 1970s, another important strategic move of leading pesticide manufacturers was their large scale entry into the seed business, essentially through the acquisition of established firms. As their business expanded, some of the major pesticide firms, e.g. Shell, Ciba-Geigy, Occidental Petroleum (Hooker Chemical) and Monsanto, entered into certain seed markets.

666. The governments of some developing counties insist that the formulation of products (mixing active and inert ingredients) under licensing arrangements should be performed by domestic companies and not by joint ventures with substantial foreign interests. To avoid continued control by transnational corporations through reciprocal marketing arrangements, some countries have laid down the rule that a foreign company may not manufacture locally the products of another foreign firm unless it can show that it is the traditional licensee in respect of that product worldwide, and is actively producing it in other countries. 54/

667. Developing countries may offer an opportunity for transnational corporations to market products which are restricted or banned in their home countries. United States companies, for example, are not required to register pesticides which they export or to disclose the substance's ingredients to the United States Environmental Protection Agency, as they must do for domestic production and marketing. 55/ These unregistered pesticides accounted for more than 25 per cent of all exports of pesticides from the United States in the late 1970s. 56/

668. The marketing of hazardous substances among populations unprepared to handle these toxic materials has been the subject of resolutions adopted by the General Assembly. 57/ The World Health Organization estimates that half a million persons suffer from pesticide poisoning each year in developing countries, at least 5,000 fatally.

2. Transnational corporations in pre-production industries: agricultural genetic resources

669. Agricultural genetic resources consist of plant resources and animal (particularly poultry) resources. The production of genetic material for commercial trading on a large scale is a relatively new industry.

670. In the 1960s, the seed sector consisted of about a thousand private firms. During the 1970s, profound transformations occurred in the seed business, principally associated with the introduction of a quasi-patent for seed germ plasm and the massive entry of large transnational corporations. Since 1970, about fifty transnational corporations have acquired between 150 and 200 medium to large seed companies. Many of the firms acquired were leaders in their product lines in Europe, Canada and the United States. 58/

671. In 1980, the value of worldwide sales of seeds was estimated at about $12 billion, one-third of the market being in the United States. In developed countries, farmers have come to rely increasingly on purchased seeds over the years. In contrast, seed sales are negligible in traditional agriculture as farmers save seeds from crop to crop or exchange them.

672. The enactment of plant patent legislation in the late 1960s in Europe and in the 1970s in the United States provided companies with incentives to develop and market their own branded varieties, as they could benefit from patent-type protection for new proprietary products. These large firms have come to play a determining role in patenting new varieties, with five firms holding over 30 per cent of all plant patents granted from 1970 to 1979. Dominance of a few firms is even more significant at the crop level, with three firms holding 80 per cent of patents on beans, and four firms holding 45 per cent of patents on cotton, 60 per cent on lettuce, 48 per cent on soybeans, and 36 per cent on wheat. 59/

673. Farmers can obtain commercial seeds from two sources, either through purchases of publicly developed varieties or from private enterprises which market house-brand name varieties. Interests of large private seed firms have focused on those types of crops for which they could assert some form of proprietary control or differentiated advantages. Hybrid lines are particularly attractive for commercial development and account for most of the operations of the leading seed firms. As the enhanced quality of the hybrid seed is not transmitted to its offspring, farmers need to rely on continuous purchases of hybrid seeds each year from the breeding companies. The successful marketing of hybrid seeds creates captive markets in subsequent years.

674. In another genetic resource area, poultry stock, similar developments are occurring. The poultry breeding industry provides the genetic stock for the production of an estimated 80 per cent of the world's commercial market for poultry meat and eggs. The breeding industry has become increasingly concentrated in the last decade, and its transnational character has been accentuated. In the poultry breeding industry three firms account for an estimated 65 per cent of the layer

breeder market worldwide and five firms hold almost 90 per cent of the broiler breeder market.

3. Transnational corporations in pre-production industries: fertilizers

675. The demand for fertilizers has increased significantly, and is likely to continue to rise considerably in the next few years, particularly in a number of developing countries where agricultural production will have to be substantially increased to meet domestic demand and to take advantage of export opportunities. The availability of chemical fertilizers at reasonable prices, therefore, is essential for agricultural development.

676. The demand of developing countries has been met largely by imports from developed market economies. The pattern of such imports may continue for some time unless production capacity in developing countries is increased during the 1980s. A substantial proportion of the exports to developing countries is channelled through transnational corporations, both directly and through associations of suppliers of certain fertilizer products.

677. In most developed market-economy countries, transnational corporations have come to control large parts, in some cases the majority, of the output of fertilizers through expansions or mergers. In some of these countries, however, a considerable proportion of production capacity is in the hands of co-operatives. Transnational corporations engaged in fertilizer production tend to be widely diversified companies. 60/ In the developing countries, chemical fertilizers are produced both by State-owned enterprises and the private sector, with some transnational corporations playing a significant role. In 1982, transnational fertilizer corporations were estimated to have an interest, often through minority equity holdings, in about 16 per cent of ammonia capacity in developing countries and in about 7 per cent of high-analysis phosphate production.

4. Transnational corporations in production industries: agricultural machinery

678. World sales of the agricultural machinery industry, excluding the socialist countries, were estimated to be approximately $22 billion in 1980, a $2 billion decline from 1977. Despite their vast land area, developing countries still make rather limited use of agricultural machinery. In 1978, developed countries, accounting for only 28 per cent of the world's arable land, used 68 per cent of the world's tractors and 70 per cent of the world's combines. In the same year, only 12 per cent of the tractors and 5 per cent of the combines were in use in developing market economies, although such countries accounted for almost 45 per cent of the world's arable land. (The remaining 20 per cent of the world's tractors and 25 per cent of the combines were in use in socialist countries, which account for somewhat less than 28 per cent of the world's total arable land.)

679. Local production of agricultural machinery in developing countries occurs mainly in Asia and Latin America, since Africa accounts for only 1 per cent of the combined production of such machinery in all developing countries. Six countries - Argentina, Brazil, China, India, the Islamic Republic of Iran and Mexico - accounted for over 90 per cent of all tractors built in the 19 producing developing countries in 1979. Transnational corporations, particularly Canadian, Japanese and the United States corporations, are quite active in the industry in developing

countries, with an increasing tendency towards joint ventures and/or licensing arrangements. With the exception of Brazil and India, developing producing countries make agricultural machinery mostly of the assembly type; they have not so far been very successful in imposing minimum local content requirements.

680. Transnational corporations have been slow to adapt product designs that were originally intended for farming in developed countries to the needs of the small-farm structure prevailing in most developing countries. The cost of the traditional size tractor, for example, is generally beyond the resources of the small peasant farmers, who are the majority of the farming population. Some governments have tried to remedy the situation by instituting a system of subsidies. During the 1970s, new small tractor designs were introduced, not by established transnational corporations, but by independent local manufacturers in India, the Philippines and Thailand.

5. Post-harvest operations: food and beverage processing industries

681. Food and beverage processing is the principal manufacturing sector in virtually all countries, in terms of both output and employment. In 1978 the food and beverage industries worldwide employed 26.6 million workers, and generated $227.5 billion value added, of which 16 per cent was contributed by industries in developing countries. The sector is relatively more important in developing nations, where it accounts for 22 per cent of the value added in manufacturing, compared to 10 per cent in developed market economies. However, despite its relative size, the value added by food processing in developing countries amounted to only 17 per cent of that of agriculture in 1978 (compared with 14 per cent in the 1961-1965 period). The growth rate in the food processing sector during the mid-1970s, however, was 70 per cent higher in developing countries than in developed market economies.

682. Partly because of a relatively low rate of return, transnational corporations are not heavily involved in the processing of staple foods, except in the poultry, feedstuffs and grain milling industries. Moreover, as noted earlier, their role in the pre-export processing of certain traditional agricultural commodities is on the decline. They are, however, increasingly active in the branded food sector, particularly in the medium and high income countries. Branded foods represent about 15 per cent of the total output of the food and beverages sector in developing countries, but in certain Latin American countries, e.g. Argentina, Brazil, and Mexico, the share is much higher.

683. Food consumption patterns have changed considerably in a number of countries, partly as a result of intensive marketing techniques. Although it is principally in the urban areas that consumers are spending a larger share of their food expenditure on processed foods, as well as imported staples, a similar transformation of food habits is occurring gradually in rural areas as well, particularly in Latin America, southern Africa, and some countries of Asia. In this regard, the demonstration effect is not unimportant. Products initially bought mainly by the relatively better-off urban consumers are now also being bought, in an "imitative" process, by the lower-income groups. 61/

D. Transnational corporations and the environment

684. The activities of transnational corporations have had an impact on the physical environment, since most environmental problems emerge as a result of

economic activities, i.e., extraction, production, and disposal of goods and services. This has occasionally conflicted with the requirements of the protection of the environment, the conservation of non-renewable natural resources and aesthetic standards of natural beauty.

685. A disctinction is drawn between production (or process) pollution and product (consumption) pollution. Production pollution involves wastes generated during the process of producing goods and services and the damage is inflicted on the country of production and export. Product pollution involves environmental damage associated with the use and disposal of final products and here the damage is sustained by the country of destination and final consumption. In some recent publications, the thesis is put forward that environmental pressures promote a gradual shift of pollution-intensive forms of economic activity from higher to lower-income countries. 62/

686. Recently, the trend in environmental protection activities seems to have shifted from concerns with production processes to the effects of the use of hazardous or polluting products. 63/ Although it is difficult to define the specific extent and magnitude of the activities of transnational corporations in the production and sale of environmentally hazardous products, such corporations undoubtedly have a predominant share of global production and marketing of chemicals 64/ and can, to this extent, be considered to have a significant role in the manufacture and sale of products which may be toxic or hazardous. At the same time, nationally-owned enterprises in various countries are also importantly involved in the production or marketing of products which may be toxic or hazardous and in the use of processes which may have adverse effects on human life and health and on the environment.

687. International trade in products banned or restricted in the home market has generated considerable concern. In certain cases, the imposition of controls on domestic use of a toxic product may lead to an increase in exports to other countries with less strict regulations on use. 65/ Transnational corporations may have an advantage, because of their international marketing networks, in effecting such shifts in distribution. On the other hand, there have been cases where their management has been under pressure from public-interest shareholder groups to abstain from such practices.

688. Irrespective of the enterprises directly involved in production and distribution of toxic and hazardous products, there may be significant information gaps in developing countries concerning the production and marketing of environmentally hazardous products or processes. On the production side, these gaps may relate to environmental and worker safety hazards, and manufacturing and technical processes involving toxic products and by-products. As for the marketing and distribution function, information gaps may exist in regard to marketing practices for selected products and advertising standards for differentiated products involving hazards.

689. Each national government can take legislative or regulatory action to limit pollution within its boundaries. But pollution that transcends national boundaries calls for the co-ordination of governmental action or for worldwide institutional responses. The damage that corporations, national or transnational, resident in one country can inflict on other countries by polluting the air, the sea, rivers or lakes raises difficult problems in global management. Ecologically polluting investments may produce damage not only in host countries, but in home countries as well.

690. Environmental issues appear to be gaining attention in the research and development programmes of most transnational corporations. The funds allocated to this purpose vary from industry to industry and from one company to another. A number of transnational corporations have established in-house environmental studies. Many corporations also participate in joint industry-wide environmental research programmes. 66/ Transnational corporations are devoting increasing resources to the development of advanced technology for the protection of the environment. Many of the corporations are in the business of developing pollution control devices, as well as production processes that may reduce pollution.

691. A growing number of transnational corporations market their environmental systems and know-how abroad. In the 1970s, the international market for pollution control equipment grew significantly. 67/ In Japan, for instance, the pollution control industry is not only exporting items used for the protection of the environment (filters, recycling equipment, scrubbers, precipitators, cooling towers, water treatment components) but it is also licensing processes and providing consulting services. Pollution control technology has become a substantial area of technical assistance and foreign trade for a number of large Japanese corporations. In the Federal Republic of Germany, more than 200 new companies have recently begun to manufacture pollution control equipment. Swedish companies are among the leading world suppliers of advanced pollution control equipment and know-how.

692. Regional and international action with regard to the environmental behaviour of transnational corporations may contribute to global efforts to preserve and improve the environment. For example, the International Organisation of Consumers Unions, based in Penang, Malaysia, sponsors various groups, including Pesticide Action Network and the pharmaceuticals oriented Health Action International. 68/ The Draft Code of Conduct for Transnational Corportions includes a provision for transnational corporations to "carry out their activities in accordance with national laws, regulations, administrative practices and policies relating to the preservation of the environment of the countries in which they operate and with due regard to relevant international standards" 69/ as well as to develop and apply adequate technologies for this purpose.

E. The socio-cultural impact of transnational corporations

693. Foreign direct investment not only involves capital, technology, know-how etc., but is often accompanied, intentionally or not, by the propagation of social and cultural impulses that may influence the socio-cultural system of host countries. These impulses affect employment and employment practices, institutions, structures of social relations, issues of community welfare, values, attitudes, roles, and consumption patterns. The effect on consumption patterns is particularly important, for a change in consumption may have a bearing on the allocation of scarce resources and hence on industrialization and economic development.

694. Although it may be said quite generally that the greater ease of communications and transport has contributed materially to the propagation of these impulses, the groups touched by them are mainly the urban and upper income groups. The masses of the poor in South Asia and Sub-Sahara Africa have remained comparatively insulated.

695. The existence of a close relationship between the socio-cultural and economic dimensions of industrialization and economic development is increasingly recognized. However, it is by no means easy to determine and measure this relationship exactly, and even less easy to determine the specific socio-cultural impact of transnational corporations.

696. The difficulties besetting such inquiries are conceptual and methodological. To begin with, no general agreement exists as to the boundaries of socio-cultural effects, in particular the demarcation line between these and economic effects. The process of development - including industrialization, modernization, urbanization and the introduction of new technologies - is, in any event, accompanied by far-reaching social and cultural changes, and foreign direct investment is only one of the many foreign influences; trade, cultural exchanges, education abroad, tourism and the media also produce socio-cultural changes, hastened by advances in international communications and transport. Changes are furthermore brought about by domestic enterprises. Since the policies of host governments which set the framework for social change are not uniform, the interaction between these policies and the conduct of transnational corporations may likewise vary. It is difficult to distinguish empirically the socio-cultural impact of transnational corporations from that attributable to other sources, such as urbanization and government policies.

697. Nevertheless, even if many of the socio-cultural changes that can be associated with transnational corporations may be unavoidable concomitants of development or other forces, it is often suggested that transnational corporations deserve special attention in this context, principally because they play an important role in many host societies. First, it is argued, this role is based on the considerable resources that many of them command through their global affiliate networks and other interconnections by means of which they contribute to the shaping of production structures of host countries (e.g., what is produced and how it is produced). Second, their foreign links can make their affiliates a conduit for the transfer of socio-cultural attributes, such as consumption patterns. 70/

1. Transmission of socio-cultural attributes

698. The agents through which the socio-cultural impact takes place include a broad range of transnational corporations. They include corporations in the primary and secondary sectors that have established foreign-affiliate networks, and corporations in the tertiary sector, especially the principal "culture" industries of advertising, the cinema, television, publishing, music, news agencies and tourism.

699. A direct socio-cultural impact of transnational corporations may be exerted through the role of industrial corporations in the production structures of host countries, especially in the consumer-goods sector. Under free-market conditions, in particular, the types of goods and services produced by affiliates of these corporations contribute directly to a shaping of consumption patterns in host countries. Similarly, the marketing and management techniques and the technology used by them influence the socio-cultural system of host countries.

700. The socio-cultural impact is reinforced by several characteristics of foreign direct investment. First, since the stocks and flows of this investment originate in a small number of home countries and since in many respects these countries (and especially their consumption patterns) are much alike, the socio-cultural

attributes introduced into host countries tend to have common elements. Second, since the vast majority of the managers at the headquarters of transnational corporations are nationals of the home country, they tend to share socio-cultural preferences. Third, since parent corporations can maintain a high degree of control over most foreign affiliates, not only can they direct them what and how to produce, but they can also induce them to adopt their socio-cultural preferences, such as language, employment practices and values. In this they are aided by a fourth characteristic, namely the generally centrally organized and controlled nature of business institutions.

701. Whereas the direct socio-cultural impact is mostly due to the influence of industrial corporations, the transmission of socio-cultural attributes from home to host countries is effected principally through the "culture" industries. Apart from contributing to the formation of consumption patterns, these industries embed these patterns into broader and mutually reinforcing socio-cultural systems.

702. The international advertising industry - the industry most directly concerned in the formation of consumption patterns - is dominated by a few agencies, most of which have their head offices in the United States. Not surprisingly, therefore, foreign advertising agencies occupy the most important position in the industry in many countries. Furthermore, almost invariably, the principal clients of the agencies are transnational corporations. 71/

2. Effect on employment and consumption patterns

703. The most profound socio-cultural impact made by transnational corporations in host countries is that on local employment and consumption patterns. The effect on employment is important because it touches the population's livelihood and, besides, the performance of affiliates in the matter of employment can have effects that are often more directly attributable to transnational corporations than some other socio-cultural impact of these corporations. The impact on consumption patterns is important because these constitute an immediate link between the socio-cultural and the economic aspects of development.

(a) Employment practices

704. Among the employment opportunities created by foreign direct investment are those open to women. The workforce of a number of foreign affiliates of transnational corporations - especially in the electronics industry 72/ - includes a high percentage of generally young and unmarried women, 73/ many of them probably previously unfamiliar with modern industrial activities. For this reason, and also because of the conditions under which they sometimes work, they may suffer from physical strain, associated with long hours of intensive work, and from emotional stress due to alienation from family-centred work with its peculiar values, rights and attitudes. 74/ However, such strain and stress are phenomena that can be observed in all cases where women are involved in the industrial process and are not exclusively attributable to the activities of transnational corporations. Besides, industrial employment and an income of their own can provide women with a basis for a change in their societal and cultural role and make them more independent of traditional constraints. 75/ Such a change is regarded as positive by many, if only because it makes possible a better mobilization of available human resources for the purpose of development. 76/

705. Transnational corporations often pride themselves on the high wages they pay (and the welfare services they provide) to their workers. Serious difficulties may arise, however, when the high wages paid by the transnational corporations tend to spread to other sectors that have lower capital-intensity and lower labour productivity. They can aggravate inflationary pressures and unemployment, distort uses of factors of production, and give rise to aspirations in advance of the capacity of the economy to fulfil them. The same might be said, of course, of the income effect of any high-productivity and hence high-wage industry. In any case, in developing countries labour unions tend to be weak and/or repressed and wages almost invariably lag behind the rate of increase of both profits and prices.

706. Some foreign affiliates of transnational corporations tend to adapt working conditions to local standards. 77/ However, the operations carried on by foreign affiliates in developing countries may involve more difficult work than in developed countries and may include work under conditions and on products not permitted in some home countries. 78/

707. If governments consider that the socio-cultural influences of transnational corporations are incompatible with local values, they are free to act accordingly and even to close certain sectors - or the whole economy - to the corporations. Governments of developing countries have to weigh the economic benefits of the direct or indirect local involvement of such corporations against the costs of any socio-cultural effects considered to be adverse. As noted earlier, however, there may be no satisfactory way of distinguishing the socio-cultural effects that can be properly attributed to the corporations from those which are in any case associated with the development process.

(b) Consumption patterns

708. Much of the discussion of the impact of transnational corporations on consumption patterns in host countries turns on the question to what extent these corporations encourage consumer preferences that are regarded as socially "inappropriate". The privileged consumer society which is typified by a number of industrial corporations and "culture" industries exhibits consumer preferences and consumption patterns that may be unsuited to the economic and social circumstances of many developing countries, for three reasons. First, these patterns may be those of a small high-income minority and reinforce inequality. Second, the desire to emulate these high-income groups may make it difficult to constrain the consumption of the lower income groups and may reduce savings. Third, in so far as the products in question are bought by low-income groups, they preempt a larger part of their incomes than if appropriate products had been available, and leave less for the satisfaction of basic needs.

709. The label of inappropriateness is often applied to goods and services that have a higher social or economic cost, but lower substantive value, than available alternatives. 79/ The determination of social and economic costs and benefits is beset by a number of well-known difficulties. The determination of substantive value is also difficult, but some relatively objective measures exist. For example, the nutritional content of different products can be measured and compared in order to obtain a measure of substantive value. This is one of the reasons why food or food-related products, such as infant formulas, breakfast foods or soft drinks are often cited in discussions of inappropriate consumption patterns. Since in many cases a single product satisfies more than one need, an analysis of the "characteristics" may show that an excessive bundle of characteristics is packaged

into the product design, originally intended for high-income markets. It is also possible to test the characteristics against the needs and assess "appropriateness" in this way. Substantive value can be measured more subjectively by reference to the extensiveness of use of a commodity. Products for which there is only a small élite market (such as colour television sets, luxury automobiles or elaborate electronic goods) are, therefore, often considered inappropriate because they may siphon off scarce resources. Conversely, products for which there is a mass market (such as rubber sandals, pottery utensils or locally-printed fabrics) are more likely to be considered appropriate.

710. Apart from the type of products produced by foreign affiliates in host countries and the forward and backward linkages of these affiliates, it is the use of advertising and marketing techniques by transnational corporations that principally affect consumption patterns in host countries. Advertising in developing countries tends to be concentrated on branded food, beverage, tobacco, health and consumer-goods industries - precisely those industries against which most of the charges of "inappropriateness" are levelled. 80/ In addition, advertising is said to create a demand for products (or variants) by suggesting new or less important uses for them. Marketing techniques, such as product differentiation, frequent model changes, the proliferation of model types, new packaging or the distribution of samples, can have similar effects. One of the key issues is, therefore, how far transnational corporations contribute to want creation rather than to the satisfaction of essential needs in markets critically short of income.

711. A frequently cited example of inappropriate consumption is the use of infant formula. 81/ In the preamble to the International Code of Marketing of Breast-milk Substitutes adopted by the World Health Assembly in May 1981, it is recognized that "inappropriate feeding practices lead to infant malnutrition, morbidity, and mortality in all countries, and that improper practices in the marketing of breast-milk substitutes and related products can contribute to these major public health problems". 82/ Some transnational corporations have employed extensive advertising and innovative marketing techniques to create a market for such substitutes.

712. Techniques to foster "inappropriate" consumption have also been observed in the case of some packaged breakfast food, 83/ soft drinks, 84/ bread 85/ and even vitamins. 86/ The products of foreign affiliates may in some cases be more costly than the substances they replace and may have a questionable or lower nutritional (substantive) value.

713. Some data suggest that inappropriate consumption patterns can also be found in the pharmaceutical sector. 87/ Certain products of some foreign affiliates in this industry cater primarily to the demands of high income groups in developing countries (for example, cold remedies). Research and development concerning drugs designed to treat the most prevalent and widespread diseases in developing countries (for example, leprosy and dysentery), on the other hand, may receive less attention because market prospects for such products may be considered less promising. Occasionally, even products that have been found unsafe, sub-standard or hazardous by regulatory agencies in developed market economies have been introduced into the markets of developing countries, especially in countries with little or no consumer-protection legislation. 88/ Similarly, the adverse effect on sales of 'danger to health' warnings and approaching market saturation in developed countries have prompted certain transnational corporations to launch a major tobacco advertising drive in developing countries.

714. The question of inappropriateness has also been raised with regard to a variety of consumer durables. If the criterion of de facto accessibility for a relatively high percentage of the population is applied as an indication of appropriateness, products like colour television sets, various appliances and electronic goods, stereos and automobiles can all be regarded, under certain circumstances, as examples of inappropriate items. As in the case of pharmaceuticals, the sale of sub-standard consumer durables is also not unknown in the developing world. 89/

715. Transnational corporations use advertising and marketing techniques to introduce new goods and services to developing countries. However, the corporations are not solely or even largely responsible for the consumption of inappropriate goods and services. Many other factors also influence the consumption patterns in developing countries, including rapid communications and foreign travel, 90/ the employment of large numbers of expatriates, and the general process of modernization and urbanization. Finally, the single most important factor leading to patterns of consumption in developing countries that may be considered undesirable is inequality in the distribution of income that often existed before, and independently of, the entry of transnational corporations, though it may perhaps be aggravated by their activities. These corporations may service an élite market, but they are not alone or even largely responsible for its creation and maintenance. Here again, the problem of attribution is difficult.

716. Perhaps the most important intervening factor, however, is the policy of host countries, since in many cases government policies are decisive in dealing with the issue of inappropriate patterns of consumption. For instance, the colour television systems being established in a growing number of developing countries could not have been begun without the initial construction of transmitting facilities by governments. Similarly, host governments set import tariffs on luxury consumer items and also have it within their power to restrict the production of these items. In addition, with the growing number of joint ventures and other arrangements between transnational corporations and host countries, developing countries have increasingly become direct parties to activities which result in the transformation of consumption patterns.

717. Lastly, it should be added that, even where advertising and marketing techniques of transnational corporations have an effect on consumption patterns, many of the products that they promote may be of positive value.

Notes

1/ See, e.g., H. Zakariya, "Sovereignty over natural resources and the search for a new international economic order", Natural Resources Forum, vol. 4, no. 1, (January 1980), pp. 75-84.

2/ These seven major companies are sometimes referred to in the literature as the "seven sisters".

3/ H. Zakariya, op. cit.

4/ International Petroleum Encyclopedia, (Oklahoma, PennWell Publishing Co, 1982), p. 11.

5/ H. Zakariya, op. cit.

6/ Francine Stock, "Renewable energy in the Third World", Petroleum Economist, (July 1981).

7/ The minerals are copper, tin, nickel, lead, zinc, iron ore, manganese ore, and bauxite/alumina/aluminium, iron ore and manganese ore. Price Prospects for Major Primary Commodities, Vol. I, World Bank, (July 1982), p. 88.

8/ For a discussion of the further processing of minerals in developing countries see, inter alia, United Nations Industrial Development Organization, Mineral Processing in Developing Countries (United Nations publication, Sales No. E.80.II.B.5) and D. Wall, "Industrial processing of natural resources", World Development, vol. 8 (1980), pp. 303-316.

9/ Copper, 64 per cent; bauxite, 71 per cent; and manganese ore 73 per cent. World Bank, Price prospects..., op. cit., table 25.

10/ In 1990, the share of developing countries in world exports is expected to be as follows: bauxite 68 per cent; copper 63 per cent; iron ore 48 per cent; manganese ore 72 per cent; and nickel 87 per cent. Ibid.

11/ United Nations, Economic Commission for Latin America, "Transnational corporations and export oriented primary commodities", (Working Paper No. 6), 30 August 1977, p. 3.

12/ R. Bosson and B. Varon, Mining Industry and the Developing Countries, (London, Oxford University Press for the World Bank, 1977), p. 37.

13/ Projections for 1983 indicate substantially higher rates: alumina refining from 25 per cent in 1977 to 46 per cent in 1983; aluminium smelting: 5 to 21 per cent; copper smelting: 0 to 14 per cent; copper refining: 47 to 49 per cent; steelmaking 12 to 13 per cent; lead processing: 43 to 48 per cent; nickel processing: 43 to 48 per cent; tin smelting: 44 to 84 per cent; and zinc processing: 31 to 62 per cent. United Nations Industrial Development Organization, Mineral Processing in Developing Countries, (United Nations publication, Sales No. 1980.II.B.5), pp. 79-80.

14/ Production figures taken from Mineral Commodity Summaries, (US Bureau of Mines, Washington, D.C., 1982) and Mining Journal Annual Review, (London, June 1982), p. 41.

15/ United Nations, Economic and Social Commission for Asia and the Pacific, "Transnational corporations and the distribution of gains in the tin industry of South-East Asia", (forthcoming), Table 1.

16/ The Patiño Group, which owned a majority share of Amalgamated Metal Corporation until 1978 when AMC was purchased by Preussag AG, included Datuk Keramet Smelting (Malaysia), Makery Smelting Co. (Nigeria), Associated Tin Smelters (Australia) and Cesbra (Brazil); the Singapore Group owns Straits Trading Co. (Malaysia); and Royal Dutch Shell owns Billiton Maatschappij (Thailand). United Nations, Economic Commission for Latin America, "Government policies towards transnational corporations in the tin industry of Bolivia and South-East Asia", (forthcoming), January 1983, Tables 3 and 4.

17/ For more details on transnational corporations in the copper industry see: United Nations Centre on Transnational Corporations, Transnational Corporations in the Copper Industry, (United Nations publication, Sales No. E.81.II.A.3). Economic Commission for Latin America, "The development of the copper industry and transnational corporations: the Chilean experience", E/ECLA/R.239, 14 January 1982, idem, "Policies and negotiations with transnational corporations in the copper industry in Peru", E/ECLA/R.270, 14 January 1982, Economic and Social Commission for Asia and the Pacific, "Transnational corporations in the copper industry of developing countries", (forthcoming), 1983.

18/ In 1981, developing countries refined 58 per cent of their copper output. For individual countries, see Mining Journal Annual Review, (June 1982), p. 33.

19/ For more details see: United Nations, Economic Commission for Africa, "Transnational corporations in the bauxite/aluminium industry of developing countries", (forthcoming), 1983; idem, "The impact of transnational corporations in the aluminium industry in Ghana", (Working Paper No. 4), October 1979; idem, "Report on Transnational corporation activity in the bauxite industry of Sierra Leone", February, 1979; idem, "Transnational corporations in the bauxite industry in Guinea", (forthcoming), 1982; Economic and Social Commission for Asia and the Pacific, "Transnational corporations and the distribution of gains in the bauxite/alumina industries of Malaysia and Indonesia", May 1982.

20/ During the 1970s, the GSA stock pile averaged about 200,000 metric tons per year compared to 20,000 to 25,000 metric tons for the buffer stock of the International Tin Council. In 1981, the members of the ITC agreed to increase the stock to 50,000 tons. During a 15 year period, ITC purchases amounted to 60,000 tons while GSA sales reached 150,000 tons. Economic Commission for Latin America, Government policies..., op. cit., (forthcoming), January 1983, pp. 16-19.

21/ Economic and Social Commission for Asia and the Pacific, "Transnational corporations and the distribution of gains in the tin industry", op. cit., p. 62.

22/ Malaysia Mining Corporation is a non-ring dealing member, which means that it does not participate in ring dealings.

23/ According to the Chief Executive of the Malaysia Mining Corporation, tin prices "are determined by a system which is completely dictated by consumers and the merchanting community overseas". Reprinted in Tin (Kuala Lumpur, Tin Industry Research and Development Board, January 1981), p. 5.

24/ 65 to 90 cents per pound on the London Metal Exchange versus producers' price of 35 to 38 cents per pound. United Nations Centre on Transnational Corporations, op. cit., (United Nations publication, Sales No. E.81.II.A.3), p. 40.

25/ For more details, see ibid., pp. 53-55.

26/ Raymond Mikesell, New Patterns of World Mineral Development, British-North American Committee, (Washington, D.C., National Planning Association, 1980), p. 25.

27/ Marian Radetzki, "Has political risk scared mineral investment away from the deposits in developing countries?", World Development, vol. 10, No. 1 (1982).

28/ Figure for 1981 communicated directly by Marian Radetzki.

29/ A company established by 12 Arab States has acquired equity in several projects, e.g., iron ore in Mauritania.

30/ Exxon, British Petroleum and Atlantic Richfield have acquired mining companies. United Nations, Committee on Natural Resources, "Permanent sovereignty over natural resources: report of the Secretary-General", (E/C.7/119) May 1981, p. 16.

31/ Under a 1958 settlement of an anti-trust suit, United Brands was obliged to divest itself of its United States ripening facilities and a part of its banana production facilities. Its Guatemala banana plantations were subsequently sold to Del Monte under the divestiture order.

32/ Food and Agriculture Organization, "Economic aspects of production, trade and distribution of bananas", BA/WP/78/5. August 1978. See also United Nations Centre on Transnational Corporations, Transnational Corporations in Food and Beverage Processing, (United Nations publication, Sales No. E.81.II.A.12).

33/ Ibid.

34/ J. Connor, The United States Food and Tobacco Manufacturing Industries' Market Structure, Structural Change and Economic Performance, (Washington, D.C., U.S. Department of Agriculture, March 1980), (Report 451).

35/ James Bethel et al., The role of US Multinational Corporations in Commercial Forestry Operations in the Tropics (Seattle, University of Washington, (March 1982), Ch. 2; Food and Agriculture Organization, Yearbook of Forest Production, 1981.

36/ Under the Laurel-Langley Agreement, American citizens enjoyed the same rights and privileges as Filipinos.

37/ United Nations Economic Commission for Africa, "Transnational corporations in the production and processing of tropical hardwood in the Ivory Coast", E/ECA/CTNC/11, July 1982.

38/ The figures are taken from "Tropical hardwoods concessions: the main fiscal and financial issues" by Malcolm Gills, for UNCTC (unpublished).

39/ American Brands (11 per cent), British American Tobacco (13 per cent), Philip Morris (10 per cent) and R.J. Reynolds (15 per cent). Moody's Industrial Manual, 1982.

40/ Ibid., p. 6086.

41/ Most of these big traders are major hedgers and speculators on the New York Cotton Exchange where some of them have their own seats and others operate through brokers.

42/ The operation of cotton markets has yet to be studied thoroughly. An important first step was taken by United Nations Conference on Trade and Development, Fibres and Textiles: Dimensions of Corporate Marketing Structure, (United Nations publication, Sales No. E.81.II.D.1). See also Economic and Social Commission for Asia and the Pacific, "Transnational corporations and the cotton industry of the developing world", (forthcoming), December 1982. The study is based on four country studies: Mexico, Pakistan, Sudan and Tanzania.

43/ Export tax increases by the Union of Banana Exporting Countries were resisted by the transnational corporations which threatened to shift their production to Ecuador. Economic Commission for Latin America, "Transnational corporations in the banana industry of Central America", E/ECLA/L.203, September 1979, part I.

44/ In one case, the US Commodity Futures Trading Commission brought suit against the major producers for alleged price boosting. In another case, the New York Exchange restricted the participation of producer countries. Finally, in 1980, the major consumer countries insisted that Panacafe be dismantled in return for their participation in reviving the International Coffee Agreement. Latin American Commodity Report, January 1980; Latin American Times, (September 1980).

45/ United Nations Conference on Trade and Development, "Selected issues in the negotiation of international commodity agreements: an economic analysis", (TD/B/C.1/224), 1982, pp. 33-34.

46/ International Development Strategy for the Third United Nations Development Decade, General Assembly resolution 35/56 of 20 January 1981. World Food Council, Food in the Context of the International Development Strategy", 24 February 1981, World Conference on Agrarian Reform and Rural Development, July 1980.

47/ Food and Agriculture Organization, Agriculture Towards 2000, 1981.

48/ Ibid. 1981, p.48.

49/ General Assembly resolution 36/185 of 17 December 1981.

50/ For further details on the phases in the international food production to consumption chain, see H. Gleckman, "Political, economic, social factors in food production", Ph.D. thesis, Brandeis University, 1982.

51/ Estimates vary since statistics on pesticides are neither complete nor fully reliable. Organization for Economic Co-operation and Development, estimated 1978 output at $9.5 billion. See The Fertilizer and Pesticides Industry (Paris, OECD, 1980).

52/ United Nations Economic and Social Commission for Asia and the Pacific, "Summary report on the supply and marketing data on agro-pesticides in Malaysia", (Bangkok, April 1981).

53/ The Fertilizer and Pesticides Industry, op. cit.

54/ Business Asia, June 27, 1980.

55/ The Food and Agriculture Organization is in the process of elaborating common standards for the registration of pesticides. United Nations Centre on Transnational Corporations, "Role of the information system on transnational corporations regarding the exchange of information on banned hazardous chemicals and unsafe pharmaceuticals", (E/C.10/90), 15 July 1981.

56/ "Better regulation of pesticides exports and pesticide residues in imported food is essential". United States Government Accounting Office, Report CED- 79-43. (Washington, D.C., 22 June, 1979).

57/ General Assembly resolution 35/186 of 15 December 1980 on "Exchange of information on banned hazardous chemicals and unsafe pharmaceutical products".

58/ Pat Mooney, Seeds of the Earth: A Public or Private Resource, (London, ICDA, 1979).

59/ Cary Fowler. Testimony. Hearings, before the US Senate Agricultural Subcommittee on Agricultural Research on General Legislation, 17 June 1980, pp. 24-25.

60/ United Nations Centre on Transnational Corporations, Transnational Corporations in the Fertilizer Industry, (United Nations publication, Sales No. E.82.II.A.10).

61/ See N. Latham, B. Popkin, "The limitations and dangers of commerciogenic nutritious foods". American Journal of Nutrition, vol. 26 (Sept., 1973), pp. 1015-1023.

62/ Barry I. Castleman, "The Export of Hazardous Factories to Developing Countries" in International Journal of Health in Services, Vol. 9, No. 4, 1979, pp. 569-606 and Bob Wyrick "Hazards for export" in Newsday, 13 December 1981.

63/ UNCTC, "Role of the Information System on Transnational Corporations regarding the Exchange of Information on Banned Hazardous Chemicals and Unsafe Pharmaceuticals" (E/C.10/90).

64/ In 1979, leading transnational corporations accounted for about two thirds of the world market economy's chemical shipments (excluding mainly pharmaceuticals) outside of the socialist countries. In certain subsectors, the share of transnational corporations was even higher, for instance, in man-made fibres close to 95 per cent.

65/ UNCTC, "Role of the Information System on Transnational Corporations regarding the Exchange of Information on Banned Hazardous Chemicals and Unsafe Pharmaceuticals" (E/C.10/90), pp. 10-11.

66/ An example of a joint industry research programme is CONCAWE (the oil companies' international Study Group for Conservation of Clean Air and Water in Western Europe). It has more than 20 participants representing 80 per cent of the refining capacity in Western Europe. Its basic function is to examine and to promote the use of means for preventing air, water, ground and noise pollution by the oil-refining industry.

The Western European chemical industry's toxicological research centre (ECETOC) could serve as an example of regional co-operation in this field. ECETOC co-operates closely with CEFIC, APME and GIFAP (International Grouping of National Associations of Pesticide Manufacturers). The Centre is supported by 42 major chemical companies from 10 countries.

67/ See, for instance, "Toxic Waste and Pollution Control Equipment Markets in Europe", Frost and Sullivan, Inc., 1982.

68/ Business International, 30 July 1982.

69/ UNCTC, "Report of the Intergovernmental Working Group on a Code of Conduct on its fifteenth, sixteenth and seventeenth sessions", E/C.10/1982/6.

70/ For a general review of this subject, see United Nations Educational, Scientific and Cultural Organization, Many Voices, One World: Towards a New More Just and More Efficient World Information and Communication Order (Paris, UNESCO, 1980) the "MacBride report"); see also Antonio Pasquali, Comprender la Comunicacion (Caracas, Monte Avila Editores, 1978); Jörg Becker, ed. Free Flow of Information: Informationen zur Neuen Internationalen Informationsordnung (Frankfurt, Gemeinschaftswerk der Evangelischen Publizistik, 1979); Kaarle Nordenstreng and Herbert I. Schiller, eds., National Sovereignty and International Communication: A Reader (Norwood, Ablex, 1979); Herbert I. Schiller, Communication and Cultural Domination (White Plains, N.Y., IASP, 1976); E.P. Pletnev, Kosmopolitizm Kapitala i Internatsionalizm Proletariata (Moscow: Mezhdunarodnye Otnoshenia, 1974); A. V. Kukarkin, Burzhuaznaia Massovaia Kultura: Teorii, Idei, Raznovidnosti Obraztsy (Moscow, Politizdat, 1978); B. Ponomarev, "Sovmestnaia Bor'ba Rabochego i Natsional'no-osvoboditel'nogo Dvizhenia Protiv Imperializma, za Sotsial'nyi Progress," Kommunist, No. 16 (November 1980), pp. 34-44; Cees Hamelink, ed., The Corporate Village: The Role of Transnational Corporations in International Communication (Rome: IDOC, 1977), Jonathan F. Gunter, The United States and the Debate on the World "Information Order" (Washington, Academy of Educational Development, 1979); and Krishna Kumar, ed., Transnational Enterprises: Their Impact on Third World Societies and Cultures (Boulder, Westview Press, 1980).

71/ For instance, advertisements of transnational corporations account for 80 per cent of the advertising space in the Colombian version of Cosmopolitan, 76 per cent in the Venezuelan version and 74 per cent in the Mexican version; see, A. Santa-Cruz and V. Erazo, Cosmopolitan: El Orden Transnacional y Su Modelo Feminino" (Mexico, Editorial Nueva Imagen, 1980). It should be noted that the relative volume of advertising in the developing countries is higher than in the developed ones. Thus, 5.8 per cent of total radio broadcasting time and 4.9 per cent of total television broadcasting time in the developed countries is taken up by advertisements; the respective figures are 19.8 and 11.9 per cent for the developing countries (and 0.9 and 2.2 per cent for the socialist countries of Eastern Europe); see United Nations Conference on Trade and Development, "The impact of trade marks on the development process of developing countries" (TD/B/C.6/AC.3/3, 29 June 1977), p. 59.

72/ According to some estimates, nearly 90 per cent of the work-force in the electronics foreign affiliates in Asia is composed of women; see Mary A. Hancock, "Electronics: The international industry. An examination of United States electronics off-shore production involving a female workforce in South-east Asia", Working Papers of the East-West Culture Learning Institute (Honolulu, East-West Centre, 1980).

73/ See, for example, Susan S. Green, "Silicon Valley's women workers: a theoretical analysis of sex-segregation in the electronics industry labour market", Working Papers of the East-West Institute, op. cit.

74/ See, for example, Barbara Ehrenreich and Annette Fuentes, "Life on the global assembly line", Ms. (January 1981); Hancock, "Electronics ...", loc. cit and Lydia Kung, "Factory work, women, and the family in Taiwan", Ph.D. dissertation, Department of Anthropology, Yale University, 1978.

75/ See, for example, S. Green "Silicon Valley ...", loc. cit.

76/ See, for example, Report of the World Conference of the United Nations Decade for Women: Equality, Development and Peace, Copenhagen, 14-30 July 1980 (United Nations publication, Sales No. E.80.IV.3 and corrigendum).

77/ See, International Labour Office, Wages and Working Conditions ..., loc. cit.

78/ See, for example, Ehrenreich and Fuentes, "Life on the global assembly line", loc. cit., and Mary A. Hancock, "Electronics ...", loc. cit.

79/ See, Thomas J. Biersteker, Distortion or Development? Contending Perspectives on the Multinational Corporation (Cambridge: MIT Press, 1978).

80/ See, for example, United Nations Centre on Transnational Corporations, Transnational Corporations in Advertising (United Nations publications, Sales No. E.79.II.A.2).

81/ See, for example, World Health Organization and United Nations Children's Fund, "Background document: joint meeting on infant and young child feeding", Geneva, 9-12 October 1979 (FHE/ICF/79.3 of October 1979); Bo Wickström, "WHO/CIE collaborative study: infant food marketing study" (Göteborg, University of Gothenburg, 1978); World Health Organization and United Nations Children's Fund, "Infant and young child feeding: current issues" (Geneva, WHO, 1981); United States Congress, Senate Committee on Human Resources, Subcommittee on Health and Scientific Research, The Marketing and Promotion of Infant Formula in Developing Countries (Washington, D.C., Government Printing Office, 1978), Pierre Borgoltz, "Economic and business aspects of infant formula promotion: implications for health professionals", in Derrick B. Jelliffee, ed., Advances in International Maternal and Child Health (Oxford, Oxford University Press, 1981); International Council of Infant Food Industry (ICIFI), "Supplementary background paper for the Joint WHO/UNICEF Meeting on Infant and Young Child Feeding, Geneva, 9-12 October 1979" (Geneva, ICIFI, 1979); Derrick B. Jelliffee and Patrice E.F. Jelliffe, "Human milk, nutrition, and the world resource crisis", Science No. 188, Special issue: Food (9 May 1975), pp. 556-561; Michael Bader, "Breast-feeding: the role of multinational corporations in Latin America", International Journal of Health Services, 6 (1978), pp. 609-626, and Krishna Kumar, "A working paper on the social and cultural impacts of transnational enterprises" (Honolulu, East-West Centre, 1978).

82/ The code was adopted by resolution 34.22 of the World Health Assembly. Text reprinted in The CTC Reporter, No. 11 (Spring 1982), (United Nations publication, Sales No. E.82.II.A.15).

83/ See, for example, Robert Girling, "Mechanisms of imperialism: technology and the dependent State", Latin American Perspectives, 3 (1976), pp. 54-64; Steven Langdon, "Multinational corporations, taste transfer and underdevelopment: a case study from Kenya", Review of African Political Economy, 2 (1976), pp. 12-35; and Raphael Kaplinsky, "Inappropriate products and techniques: breakfast foods in Kenya", Review of African Political Economy, 14 (Jan.-April 1979), pp. 90-96.

84/ See, for example, Robert J. Ledogar, Hungry for profits: U.S. Food and Drug Multinationals in Latin America (New York, IDOC/International Documentation No. 70, 1975) and Kumar, "Working paper ...", op. cit.

85/ See, for example, Richard Barnet and Ronald Müller, Global Reach: The Power of Multinational Corporations (New York, Simon and Schuster, 1974).

86/ See, for example, Biersteker, Distortion or Development ..., op. cit.

87/ See, for example, United Nations Centre on Transnational Corporations, "Transnational corporations in the pharmaceutical industry in developing countries" (E/C.10/85) and the supporting technical paper (forthcoming); Gary Gereffi, "The global pharmaceutical industry and its impact in third world countries", in R. Newfarmer, ed., Transnationals, International Oligopoly and Uneven Development (forthcoming); Charles Medawar, Insult or Injury? An Enquiry into the Marketing and Advertising of British Food and Drug Products in the Third World (London, Social Audit, 1979), and United Nations Industrial Development Organization, "Assessment of the pharmaceutical industry 1979-2000: a report for the global preparatory meeting on pharmaceuticals" (UNIDO/ICIS 146 of 13 February 1980).

88/ See, for example, United Nations Centre on Transnational Corporations, "Role of the information system on transnational corporations regarding the exchange of information on banned hazardous chemicals and unsafe pharmaceuticals" (E/C.10/90); Ledogar, Hungry for Profits ..., op. cit.; and A. Coote, "Third world's deadly pharmaceutical trade", New Statesman, 98 (31 August 1979).

89/ See, for example, Biersteker, Distortion or Development ..., op. cit.

90/ See, for example, Kaplinsky, "Inappropriate products ...", loc. cit., United Nations Centre on Transnational Corporations, "Transnational corporations in international tourism" (United Nations publication, Sales No. E.82.II.A.9); and Louis Turner and John Ash, The Golden Hordes: International Tourism and the Pleasure Periphery (New York, St. Martin's Press, 1976).

Chapter VI

RECENT TRENDS IN CONTRACTUAL ARRANGEMENTS

Introduction

718. In the previous chapters, there was considerable discussion of the changing relations between host countries and transnational corporations. It was pointed out that an important aspect of this phenomenon was the movement from traditional equity investments to a rich variety of contractual arrangements. This chapter attempts a resumé of some of the main trends discernible in some of these contractual arrangements in recent years.

719. The evidence suggests that, while there has been an impressive growth in the number of contractual arrangements and much diversification, no confident assertions can be made about a simple progression from one legal arrangement to another, or about the inherent superiority of one form to another. The movement from wholly or majority-owned equity investments to the new forms reflects greater flexibility on the part of both the host governments and the transnational corporations; it has also widened the range of options available to them. As pointed out in Re-examination, however, it would be misleading to identify any one form with a particular set of benefits in terms of control, financial return or other economic advantages. Thus a poorly designed management contract may concede substantial financial benefits to a transnational corporation, while denying effective control to the host government. As in other contractual forms, what matters is not the format but the substance of the arrangements.

720. Furthermore, while recent trends indicate that the negotiating position of host countries has on the whole improved in certain sectors, notably petroleum, resulting in an increased share of benefits for the host country concerned, the same cannot be said of all sectors or indeed of all countries that have entered into contractual arrangements relating to a particular sector. Among the factors shaping the terms and conditions of a transaction with a transnational corporation are the sophistication, experience and negotiating skills of officials, the proven resource potential of host countries in the case of resource projects, the perceptions of transnational corporations as to the economic prospects of particular countries, competition among them for the project in question, and external and internal economic pressures. It has to be noted, however, that the learning experience of host countries in their dealings with transnational corporations has on the whole improved over time. This experience has been reinforced significantly by various forms of technical assistance which several international bodies or agencies, such as the United Nations Centre on Transnational Corporations, UNIDO, the Department of Technical Co-operation for Development, the Commonwealth Secretariat and the World Bank have made available.

721. Transnational corporations have shown considerable flexibility in adjusting to the new forms of contractual relations, without substantially sacrificing their financial or long-term interests. Host governments have also demonstrated some flexibility and pragmatism in their demands on transnational corporations. The era of confrontation has largely receded. It is not entirely clear to what extent this change of attitude is due to the pressures generated by the current world economic situation and how far it reflects a more enduring accommodation between the two parties; both factors have almost certainly exerted an influence.

A. Mineral agreements

722. Trends in contractual arrangements relating to natural resource projects, in particular those concerning petroleum and hard minerals, in the early and mid-1970s were reviewed in the Re-examination. 1/ The present chapter brings that review up to date.

723. Through legislation and a wide variety of contractual arrangements (e.g., modernized concessions, joint ventures, service contracts, technical assistance contracts, production-sharing arrangements, compensation trade arrangements, turnkey contracts, and combinations of any of these), host countries have continued to pursue well-known objectives of Government policy as regards resource development; namely, inter alia:

(i) A more effective assertion and maintenance of national sovereignty over natural resources;

(ii) In general, exercising the maximum possible national control over the petroleum and mining industries so as to achieve other national objectives and to ensure that the operations in these sectors are consistent with national plans and policies;

(iii) Effective participation in the management of the development and exploitation of natural resources to ensure the formation of national capabilities and domestic technical expertise in the sector;

(iv) The development and exploitation of natural resources in a way that maximizes ultimate total recovery and ensures maximum long-term benefits to the country, in particular, maximum government revenue;

(v) Expeditious exploration of the national territory, in order to determine accurately the full extent of the country's resource potential;

(vi) In cases where there are proven or probable petroleum resources, the protection of national security through ensuring a national petroleum supply and consequently lessening dependence on foreign sources of supply;

(vii) Generally, the strengthening of the national position in world commerce and trade.

724. In consequence of the strategies adopted by the host countries, many of the features considered to be objectionable by these countries in contractual arrangements in the resource sector two decades ago have by now disappeared or have been attenuated. Examples of these features are long contract periods, inordinately large contract areas, inadequate working provisions, modest fiscal liabilities, exclusive control by foreign companies of virtually all aspects of mineral operations (e.g., exploration, production, marketing, management, pricing), arbitrary accounting methods and pricing policies, absence of provisions on environmental protection and backward and forward economic linkages, inadequate provision for the training and employment of local personnel and transfer of technology, ineffectual requirements for superintending the operations of foreign companies, and the virtual exclusion of the host country's law from the regime governing the contract.

725. As a consequence, it has been possible to achieve a greater measure of equity and balance in arrangements between host countries and transnational corporations. On the other hand, in response to the world economic recession and the resulting drastic decline of foreign investments in hard minerals, some countries, such as Chile, Ghana, and Indonesia, have adopted more liberal fiscal and legal regimes as special inducements for investments in the solid minerals sector.

726. Although the petroleum sector offers the most fertile source of innovative contractual arrangements, the possibilities of very favourable arrangements are not open to all countries. Such arrangements are more likely in the case of countries with established petroleum prospects, than in countries with marginal or modest petroleum potential. It has happened, for example, that after unsuccessfully promulgating ambitious petroleum regimes, some governments have had to modify their terms and conditions to attract transnational companies (Brazil, Chile, Ghana and Guatemala). Liberalization has sometimes taken the form of admitting foreign companies to areas previously reserved for national agencies, as in the case of Argentina.

727. A similar qualification attaches to the oft-quoted progression from concessions to other contracts. While the movement from traditional concessions to other arrangements, as documented in the Re-examination and elsewhere, continues, modern trends indicate that the strategies of host governments and transnational corporations in the choice of contractual forms are more flexible and complex than any notion of a simple progression from one form to another would imply.. First, concessions, albeit in a modernized form, still persist with respect to both petroleum and hard minerals. According to a recent survey of petroleum arrangements, concessions are still used, though by no means exclusively, in 121 countries, including Australia, Nigeria, Norway, Qatar, Thailand, the United Kingdom, and the United States. 2/ The concession system or its equivalent, such as leases or licences, is widely used in Africa with respect to both petroleum and hard minerals.

728. Secondly, some recent mineral agreements defy a rigid classification into tidy contractual forms. For example, while some Indonesian work contracts for the exploitation of hard minerals and coal are hardly distinguishable from concessions in substance, modernized concessions, such as the new petroleum contracts of Madagascar, which provide for State equity participation, substantial involvement of State agencies in the management of the undertaking and a high level of fiscal charges, are closer to joint ventures than to traditional concessions. Many recent mineral agreements in fact combine features of several contractual forms.

729. Some of the recent production sharing agreements entered into by Indonesia and India incorporate elements of a joint venture. For instance, Pertamina, Indonesia's national oil company, has the option to purchase an undivided 5 per cent working interest of the contractor's share of the production.. Similarly, the Indian Government has the option to purchase a 10 per cent working interest from the oil company upon a commercial discovery of petroleum. In either case, the purchaser is required to share pro rata in all costs after the exercise of this option.

730. Similarly, many recent arrangements relating to hard minerals combine aspects of concessions, e.g., the Rio Tinto Zinc contract of 1977 in Indonesia; the Haitian contracts of 1975-76 (mostly concession); the Cerro Colorado Copper contract in Panama, 1976-80 (concession/joint venture/management); the Kaiser Reynolds and

Alcoa contracts in Jamaica (concession/national participation/management); the Cerro Matoso contract in Colombia, 1970-1979 (concession/joint venture/management); and the Ok Tedi Copper contract in Papua New Guinea, 1975-81 (concession/eventual national participation). 3/

731. Third, as intimated above, host countries often employ two or more contractual forms at once as discrete strategies in their resource development. Both Nigeria and Trinidad and Tobago, for example, rely on concessions, equity joint ventures and production sharing arrangements for their petroleum development. Sudan employs both concessions and production sharing contracts; Angola has concluded both joint ventures and production sharing contracts; while China and Peru have signed production-sharing and service contracts. This flexibility is particularly evident with respect to different mineral sectors. While some countries have developed highly sophisticated petroleum contracts resulting in substantially increased benefits to the State, their contracts for the development of other sources of energy or hard minerals have been unambitious. Thus, Indonesian work contracts for coal and hard minerals on the whole impose a less stringent fiscal regime than its petroleum production sharing contracts.

732. In this regard, it is significant that uranium contracts negotiated by host developing countries, with a few notable exceptions (e.g., Guyana and the United Republic of Tanzania), still display some of the anachronistic features which the Governments of many of these countries have sought to eliminate within the past two decades. 4/

733. These discrepancies are partly attributable to the differing perceptions of transnational corporations as to prospects in various mineral sectors, and the wide divergence in the experience, skill and sophistication of the various State agencies dealing with minerals. With respect to uranium, the negotiating position of host developing countries has been adversely affected by a number of factors, particularly the relatively small share of developing countries as a group in total supplies to the world uranium market and current depressed market conditions.

734. There is therefore strong reason to question the concept of a simple unhindered progression from one contractual form to another. However, the existence of a wide variety of contractual arrangements cannot be denied. Furthermore, there has been some refinement and elaboration of the conventional contractual forms. For example, whereas Angola's recent production sharing contracts for petroleum conform in other respects to the usual pattern as to the provision and recovery of risk capital, and the split of the "profit oil" between the State and the foreign company, they contain an innovative "price cap" clause, under which extra profits resulting from increases in crude oil prices, over and above the level of inflation in the oil company's costs, are reserved for the State. ("Profit oil" is that part of the crude oil production which, under a production-sharing agreement, remains after the contracting oil company has received its cost oil share. "Cost oil" is that part of crude oil production which, under a production-sharing contract, has been set aside for the recovery of exploration, development and operating costs.) This provision exemplifies the growing tendency of host governments to introduce devices such as an excess or additional profits tax (discussed later in this study) for the purpose of capturing excess rent arising from increases in the price of petroleum or other minerals.

735. Other countries have introduced imaginative "incidental" clauses in petroleum contracts which impose obligations or provide inducements for purposes not directly related to the transaction in question, but nevertheless pertinent to the petroleum policies of the host country. Algeria's contracts for the sale of crude oil have imposed a $3 per barrel fee the proceeds of which are to be applied to exploration investment. The oil companies purchasing Algerian oil have had to agree to undertake an exploration programme within a given time or otherwise risk losing the approved supplies. If an acceptable work programme was undertaken, the $3 a barrel fee would be offset against resulting expenditure; if not, the extra cash would eventually be forfeited. Saudi Arabia is providing "incentive crude", which is a quantity of petroleum over and above what the companies would otherwise be entitled to, as an inducement for entering into joint ventures in refining and petrochemicals plants. The formula with respect to petrochemicals is as follows: 1,000 barrels per day (b/d) for $1 million investment in 1975 prices, or 500 b/d for $1 million in current prices. 5/

736. One form of contractual arrangement with transnational corporations, which has been employed by the socialist countries for resource development and is increasingly being adopted in other countries, is the compensation trade (also known as "counter-trade") agreement. Such an arrangement is essentially a form of long-term financing consisting of two basic elements: (i) the provision of loans or credit by a foreign bank for the acquisition of plant, equipment and modern technology by the recipient country from a foreign supplier, and (ii) the eventual reimbursement of such loans and credits through the sale-back of the resultant product to the foreign supplier pursuant to a long-term counter-purchase commitment running over a period of years. 6/

737. In large resource development projects, a compensation arrangement can be mutually beneficial to both parties although the form of the agreement does not per se ensure that benefits will be equivalent on both sides.. To the recipient country, the agreement may offer access to the technology required, enabling it to explore, develop and produce the resource more expeditiously and efficiently than would otherwise be possible, and also substantial risk capital made available from external sources, thus adding to available domestic resources. In addition, the recipient country can defer repayment until the project is in the production phase and is generating the necessary convertible currency through sale of the resulting product. The balance of advantage depends, of course, as in other forms of contractual arrangement, on the specific terms and conditions, but for host countries under balance of payments pressure such arrangements have obvious attractions. The arrangement is also advantageous to the supplier in so far as it provides for a relatively secure source of supply of the resulting product over the long term, in addition to the profit realized on the sale of equipment and technology.

738. The basic format of the compensation trade arrangement can be adapted to meet the peculiarities of particular resource projects. In the case of oil exploration, for example, owing to the uncertainty of the discovery of oil in commercial quantities, foreign suppliers have been requested to arrange for the financing of the up-front costs through foreign credits, and they receive compensation in the form of oil deliveries only in the event of success. The funds derived from the oil deliveries are applied to the repayment of credits and the price paid by the foreign supplier for the oil is subject to a discount in order to remunerate the company's management and to provide for commercial and unforeseen expenses as well as the risk involved in the credit. An example of such a compensation arrangement

is the agreement of 1975 between the USSR Ministry of Foreign Trade and a transnational corporation based in the United States for co-operation in the field of prospecting, organization and extraction of oil on the shelf of Barentsov and Pechom Seas and delivery of these minerals to the United States.

739. Compensation trade arrangements for resource projects are often combined with equity joint ventures, or long-term mine leases or service contracts or equipment leasing. This underscores the difficulty alluded to earlier of classifying mineral agreements into rigid contractual forms. In the passages which follow, therefore, the emphasis will be placed on portraying broad developments affecting the main themes common to all contractual forms, such as ownership and control, participation in management, financial terms, accelerating production and work programmes, transfer of technology and training.

1. Ownership and control

740. Since the mid-1970s, there has been a marked abatement of the spate of nationalizations that had previously characterized the relations between host governments and transnational corporations in the natural resource sector. However, host countries have continued to adopt various devices for consolidating and maintaining their sovereignty and for achieving more effective control over their natural resources. The progression from traditional concessions to new contractual arrangements is a reflection of this phenomenon, although, as pointed out earlier, some host countries have displayed considerable flexibility in promulgating liberal fiscal and legal regimes as special inducements to attract investments, particularly in hard minerals. In addition to the contractual mechanisms discussed below that are designed to ensure effective control, host countries have established national petroleum and mining agencies and have, in some cases, enacted new petroleum and mining laws, all for the purpose of more effectively controlling, regulating or participating in the development and production of their natural resources. Although these endeavours have not been invariably successful in realizing the declared goals of host countries, they constitute a significant development within the past few years.

2. National petroleum and mining agencies

741. Many host countries have followed the example of OPEC countries in establishing national petroleum enterprises specifically charged with the following specific functions, inter alia:

(a) Sustaining the State's broad interest in petroleum development, in particular, by supervising and monitoring enterprises operating in the petroleum sector;

(b) Negotiating and enforcing agreements with foreign oil companies and financing agencies;

(c) Exercising special prerogatives in the petroleum industry, e.g., the right to explore, develop, produce and market petroleum, either exclusively or in association with foreign companies; and

(d) Developing national capabilities in the petroleum industry by acquiring the requisite technology and establishing a cadre of well-trained local personnel.

742. Such agencies have recently been established in Canada, China, Ivory Coast, Gabon, Norway, Trinidad and Tobago, the United Republic of Cameroon, and the United Kingdom. Agencies performing corresponding functions in the hard mineral sector have been established in Algeria, Angola, Malaysia and Zambia, and such an agency will soon be established in Ghana.

743. The governments of some developing countries have recently imposed restraints on what was perceived as the excessive autonomy of their national petroleum companies, and have redirected a substantial part of petroleum revenues from such companies to the national treasuries. New legislation in several countries with production sharing contracts now requires the payment of royalties and corporate income tax directly to the government and the payment of the production share to the national petroleum company. Thus, whereas initially most of the cash flow under production-sharing arrangements flowed through the national petroleum company, now a significant part flows directly to the national treasury.

3. Legislation

744. Although some of the major petroleum producing countries have no general petroleum legislation, many host countries have reinforced their petroleum policies and strategies with legislation that proclaims State ownership of petroleum reserves and further accentuates the State's interest by specifying the extent of State ownership in petroleum undertakings, the role of national petroleum agencies, some of the basic terms and conditions of foreign participation, including the fiscal regime, the requirements of local incorporation, the new contractual forms, the requirements of State approval for various aspects of petroleum operations, such as the budget, development programmes and detailed regulations for petroleum operations.

745. Such enactments have usually provided the basis for new contractual regimes for the operations of foreign companies. Examples of these are the Guatemalan Petroleum Law of 1975 (Decree No. 96-75) as amended in 1978, Peruvian Decrees No. 22774, 22775 and 22862 of 1979, Madagascar's Petroleum Code of 1980 (Law No. 80-001 of 6 June 1980), the United Kingdom's Oil Taxation Act of 1975 as amended in 1980, Norway's Act of June 1975 relating to the Taxation of Submarine Petroleum Resources as amended in 1980, 7/ and China's Regulations of 1982 on the Exploitation of Offshore Petroleum Resources in Co-operation with Foreign Enterprises. 8/ Legislation or regulations on similar lines have recently been promulgated with respect to hard minerals by the British Virgin Islands, Indonesia, and Papua New Guinea.

746. A notable development is that modern petroleum regimes in the industrialized and the developing countries have now become much alike. One would generally find the following features:

- a royalty and a corporate income tax, providing the government with an important share of the cash flow;

- the direct participation by a national petroleum corporation, providing for additional cash flow, as well as a direct role in the operations;

- an additional financial feature of sharing additional profits, which in the industrialized countries is generally a special tax or royalty, and in the developing countries a production-sharing system in accordance with a sliding scale related to production; and

- flexible legislation that relies heavily on regulations to provide for an administration that can be adapted to different situations as they occur.

4. State equity participation

747. In petroleum producing countries that still operate the concession system, and in countries producing hard minerals, the device of State equity participation in the production of the mineral resource still continues to be employed for purposes of achieving effective control. Norway and the United Kingdom have accorded their respective State oil agencies wide participatory rights ranging from 50 per cent to as high as 80 per cent acccording to the volume of petroleum production. Madagascar's Petroleum Law of 1980 stipulates a mandatory State equity participation of 51 per cent. With respect to hard minerals, Indonesia in its agreement with RTZ has reserved the option to acquire 51 per cent of the equity of the undertaking in question. Angola has acquired 80 per cent of the equity of the DIAMANG diamond undertaking. Papua New Guinea and Panama on the other hand have options to acquire a minority equity interest of up to 20 per cent in the enterprise concerned under their respective mining agreements with Broken Hill and Texasgulf. While such minority equity positions do not assure control, some countries have used their minority position as a basis for asserting supervisory powers well beyond those conventionally accorded to minority shareholders. Thus, under a recent uranium contract, by which Guyana acquires a minority equity position, Guyana nevertheless has the right to appoint a majority of directors to the board of the joint venture. 9/ The foreign company is, however, protected by the requirement that major decisions require a unanimous vote. China's joint venture arrangements similarly obviate the possibility of excessive control by the foreign company by laying down the condition of unanimity for decisions even in the case of ventures in which China has a minority equity interest.

748. As stressed in Re-examination, the acquisition even of a majority equity position by the State does not necessarily ensure effective control, particularly in the absence of technical and managerial expertise on the part of State officials. 10/ Nevertheless, the continuing practice of acquiring an equity interest derives from the realization by host countries that, without effective participation in the management of the undertaking, it would be impossible to realize the national objectives, such as control and the development of national capabilities. Thus, the difficulties of the learning process and the obvious imperfections of the control system have not deterred host governments from seeking equity position. These efforts have been reinforced by innovative devices designed to strengthen national supervision at the operational level.

5. New mechanisms for reinforcing control

749. Under the traditional concession regime, all important decisions - where and how vigorously to explore, whether to develop a discovery, how much to produce, the pricing of the output and the destination of the product, the intensity of the training programme, level of employment of local personnel, etc. - were exclusively in the hands of the foreign company. Under the newer forms of contracts, there is typically a sharing of control between the host government and the foreign company. This is achieved in a number of ways. With respect to petroleum exploration, the total extent of the company's exploration effort, whether measured in terms of expenditure or in terms of physical effort (number and depth of wells to be drilled, kilometres of seismic survey, etc.), is frequently determined in advance, either by negotiation or by competitive bidding. In this way, a host

government can at least be sure that exploration at some agreed level will occur - an assurance which was not possible under the old concession regime. Modern petroleum contracts further contain elaborate definitions of "commerciality" which provide for State participation in the determination of the commerciality of the discovery. The relinquishment of contract areas, the determination of budget and development programmes and similar operational decisions are now made with the participation of State agencies.

750. Once petroleum has been discovered, the new contracts tend to provide for some degree of power sharing in decision-making. Typically, operations are supervised by a joint venture board of directors, or, in the case of production sharing and service contracts, by a management committee on which both the host government or its State oil enterprise and the foreign oil company are represented.

751. Representation on these management committees does not necessarily correspond to the percentage of equity ownership or the shares in the production. The terms of reference of the management committees are closely defined, spelling out their functions with respect to specific aspects of the operations, as in the case of the Chinese petroleum contracts.

752. Some host governments have gone further by stipulating the attachment of local personnel to every department of petroleum operations to ensure their involvement in day-to-day management. Indonesia recently decreed that all foreign companies operating in its petroleum sector should replace their foreign personnel operating their rigs with local personnel. Under some agreements, there is a clear transfer of managerial control from the foreign company to the national agency at a certain stage of the project, for example, at the commencement of production.

753. Several agreements now require elaborate accounting procedures to be observed by foreign companies in their petroleum operations (China, Trinidad and Tobago). The requirement of local incorporation is also seen as a device for subjecting foreign companies to stricter regulation. These developments are not confined to petroleum producing countries. The governments of other mineral producing countries often seek to control the development of a mineral deposit by requiring that all programmes for a given project and important decisions receive prior State approval or be submitted to State scrutiny. Papua New Guinea, which appoints directors to the board in proportion to its 20 per cent equity holding under the agreement with Broken Hill, requires that the work proposals of that company receive government approval at various stages of the project. The Indonesian/RTZ agreement defines a specific five-year phase development programme and the amounts of money RTZ must spend at each stage. Other host countries have continued to employ consultants (Swaziland) and technical committees (Botswana) to strengthen State participation in supervisory boards.

754. While these developments are significant, they have not resulted in all cases in a marked shift of control from transnational corporations to host governments. The cumulative effect of the superior technical expertise, information and management skills of transnational corporations and their command of financial resources and inter-affiliate connections still prevail in many cases.

755. Achieving control through increased State participation in the equity has sometimes proved costly to the host country. For example, in Zambia, two copper mining companies (NCCM and RCM) in which the State took a 51 per cent equity participation in 1970, subsequently obtained substantial loans from public

financial institutions, a facility which would have been otherwise difficult to justify politically if these mines had been wholly-owned by transnational corporations. 11/

756. Economic difficulties and the associated decline in mining investments have caused some host countries to relax their requirements for control within a framework of liberal arrangements designed to attract such investments. Ghana's Investment Code of 1981, for instance, assured management control to any foreign company that contributed equity, irrespective of its size, to a mining joint venture in Ghana. In Argentina, Chile, and Peru, new liberal regimes were promulgated in the late 1970s with special incentives for foreign investment in mining. As mentioned earlier, uranium contracts concluded by some developing countries assure the transnational mining companies concerned virtually unfettered control over the mining operations, along the lines of traditional concession regimes.

757. Major petroleum producing countries, such as the Islamic Republic of Iran, Kuwait, Saudi Arabia and Venezuela, which have nationalized their petroleum industries, frequently engage the financial and technical assistance of foreign contractors. For example, Brazil, which, in 1953, had established a State monopoly for the exploration and development of its petroleum resources, adopted a more flexible approach in 1977 by introducing a model service contract to be entered into between foreign companies and Petrobras, the national oil company. Other countries which have recently relaxed the State monopoly over the development of their petroleum resources include Argentina, India, Sri Lanka and the Syrian Arab Republic. At the same time, it should be noted that all forms of petroleum agreements between governments of host countries and foreign oil companies increasingly reflect the governments' objectives of greater participation, greater control over operations and a greater share of financial and other benefits from petroleum development. These goals have been pursued by virtually all developing countries, regardless of their level of development or political ideology.

758. The present global energy situation has made all countries with a petroleum potential increasingly aware of the need to secure the development of their energy resources in a manner compatible with their over-all national policies. The increases in the price of crude oil that have taken place since 1973 have imposed severe strains on the economies of oil-importing developing countries but, at the same time, have made it possible for governments of producing or potentially producing countries to obtain increasingly better terms from oil companies, both financially and from the point of view of control over operations.

6. Fiscal and financial aspects

759. While the financial benefits accruing to a host country are not necessarily a function of a particular contractual form, a survey of recent mineral agreements discloses a continuing trend towards a much higher financial return to host countries than was realized by means of the modest fiscal charges associated with the traditional concession regime. 12/ This is particularly true of recent petroleum agreements which contain an ambitious fiscal regime imposing payments of tax based on production, as well as on net income and, in some cases, an element of "free equity". Most petroleum agreements require the foreign company to bear the full exploration risk, up to the point of determination of commercial discovery, in addition to imposing a wide range of fiscal devices to secure revenue. Thus, a typical production-sharing agreement may include the following elements as part of

the State's "take": (i) a royalty, based on the value of the oil produced; (ii) a percentage of the oil produced, after an allowance for recoupment of costs by the foreign company and of some specified percentage of the total production; and (iii) an income tax, levied on the profit earned from the oil company's sale of its share of the production. Under some recent contracts of this type (e.g., Malaysia and Viet Nam), the State's share of the total economic rent is of the order of 95 per cent.

760. Other agreements, such as modernized concessions and joint ventures, employ a combination of royalties, rental, bonus payments, income tax and an equity interest which is sometimes carried through exploration or development.

761. The level of fiscal levies has followed the increase in petroleum prices. For example, in 1981, the United Kingdom levied the following payments:

(a) Supplementary tax of 20 per cent of the value of production in excess of 20,000 barrels per day;

(b) Royalty of 12.5 per cent of the value of production;

(c) Petroleum revenue tax at a rate of 70 per cent of the net income (allowing for deduction of the supplementary tax and royalty) after recovery of the initial capital investment; and

(d) General corporate income tax at a rate of 52 per cent on income after deduction of the petroleum revenue tax.

762. The net effect of all these levies together, without State equity participation, on a field producing, for example, 250,000 barrels per day, is that the Government obtains about 85 per cent of the total economic rent at a 15 per cent discount rate.

763. Governments of petroleum producing countries have, on the whole, been largely successful in maintaining that, in their sovereign capacity, and, in most cases, as owners of the petroleum, they are entitled to retain the bulk of the economic rent and to restrict profits of the oil companies to a reasonable return.

764. There have been some innovations in the structuring of some of the components of the fiscal regimes, as described below.

(a) Royalties

765. The level of royalty charges has, on the whole, increased within recent years, ranging from 12 per cent of the value of production (Argentina) to 20 per cent in the OPEC countries. Royalties in the early concessions were often expressed as a certain charge on the volume produced, irrespective of the value of the petroleum. Today, they are usually determined as a percentage of the value of production. A notable development which substantially improves the host country's position is that royalties are increasingly imposed according to a sliding scale or some other method to differentiate between different sets of circumstances. Examples of these are:

(a) Payments according to a sliding scale increasing in steps with certain stated levels of production (Abu Dhabi, Greece, Madagascar, the Netherlands, Nicaragua, Norway, the United States of America);

(b) Payments that vary according to whether production is offshore or onshore (Nigeria);

(c) Payments that vary according to water depths or distance from shore (the Gambia, Guyana, Seychelles, Thailand, and Tonga);

(d) Payments that vary according to the quality (gravity) of the crude oil (Guyana).

Under the traditional concession regimes, royalties were a credit against income tax. Now they are generally deductible as a cost from income tax in most countries.

(b) Bonus payments

766. Bonus payments levied at the time of signature of the exploitation agreement usually range from $1 million to $3 million and may sometimes go as high as $7 million (Indonesia). Examples of production bonuses are $4.5 million at 250,000 b/d and $9 million at 400,000 b/d (Norway); $1 million separately at 50,000 b/d, 100,000 b/d and 150,000 b/d (Indonesia); $3 million at 60,000 b/d and at 100,000 b/d (Malaysia). For the exploitation of petroleum deposits, in the West Sinai, Egypt is paid $3 million on signature, $1 million when production reaches 50,000 b/d, $2 million at 100,000 b/d and $3 million at 150,000 b/d.

(c) Rentals

767. Rentals of petroleum producing areas are usually low in most of the countries concerned since they do not account for a significant fraction of government revenues. Notable exceptions are Norway and the United Kingdom, where in the tenth year after commercial discovery the annual rental is about $5,000/km and $7,200/km respectively. Under a number of recent agreements, sliding scale rentals increasing over time, in addition to specific work obligations and minimum expenditures, have been used to exert financial pressure on companies to relinquish areas in which no exploration is taking place so that they can be allocated to others willing to conduct active exploration programmes. Such provisions are contained in recent Indian and Norwegian regulations and contracts.

(d) Taxation

768. Taxation on the net income from the local operations of an oil company is a major source of government income under most modern petroleum agreements. An obligation to pay a relatively high percentage of realized profits may appear less burdensome to an oil company than an obligation to pay a heavy fee based on production, since the tax liability is related to the level of profitability. The levy on net income takes the form either of a special petroleum tax or of a corporate tax. OPEC countries apply a special income tax rate of 85 per cent. Income tax rates in other petroleum producing countries can vary from zero to 85 per cent. Sudan applied a special petroleum tax of 70 per cent under concession agreements it signed in 1980. In Norway and the United Kingdom, the respective corporate income tax rates are set at 50.8 per cent and 52 per cent and are the subject of new legislation every year. They have been augmented by the introduction of the special tax (Norway) and the petroleum revenue tax (United Kingdom). The 45 per cent corporate income tax rate applicable to companies exploiting petroleum in Madagascar is also augmented by supplementary payments that are a function of profitability. Other examples of income tax rates are:

Argentina 55 per cent, Ecuador 71.42 per cent, Italy 48 per cent, Niger 50 per cent, Nigeria 85 per cent, Peru 68.5 per cent, Tunisia 55 per cent.

769. Various steps have been taken by the governments of host countries to capture windfall profits from the operations of oil companies, most frequently through the introduction of various types of payments based on income, called "windfall" or "excess profits" taxes. Excess profits taxes are applied either as supplementary payments (Madagascar, Norway) or treated as a deductible item against the taxable income as in the case of the petroleum revenue tax in the United Kingdom. The measures can take the form of new tax legislation, as in the case of Madagascar and Norway, or of contractual arrangements for a larger share of the production or of the proceeds of crude sales as in the case of Indonesia and Malaysia. The special tax of 35 per cent in Norway is additional to the corporate tax and is set so as to allow the oil company an acceptable commercial rate of return. In Madagascar, the supplementary payment is a percentage of the after-tax net cash flow paid to the Government when the rate of return is higher than 15 per cent, viz. 25 per cent for a rate of 15 per cent-20 per cent, 50 per cent for the range 20 per cent-25 per cent and 75 per cent for a rate of return higher than 35 per cent. Contractual arrangements can provide for payments in the form of 50 per cent per barrel of the excess amount realized above an agreed f.o.b. sales price (Peru), or an increased share in the production (Indonesia) where production exceeds certain levels specified in the contract. Malaysia imposes an excess profits tax on the contractor's income from its production sharing agreement, as well as a basic income tax. The excess profits tax is calculated as a proportion of the difference between the current sales price and a base or reference price. A similar system is used in the new windfall profits tax imposed by the United States. In Papua New Guinea, an additional tax is imposed after the oil company has achieved a specified discounted cash flow rate of return.

(e) Progressive production sharing

770. Apart from the additional profits tax, important devices have recently been introduced in production-sharing contracts to maximize government revenues. First, the percentage of the production allocated as cost oil has been reduced. The Egyptian ECPC-AMOCO Agreement of 1976 limited the cost oil to 20 per cent of the production, but recovery was to be spread out over a period of time. The Malaysian production sharing contracts with Shell and Exxon, respectively of 1976 provided for the recovery of cost from 20 per cent of the oil produced and 25 per cent in case of gas. Cost oil has sometimes been subject to a sliding scale, with the percentage declining in accordance with stipulated levels of production. Second, the government's share of the profit oil has increased. Further sliding scales have increasingly been applied to the split of the profit oil, resulting in a graduated increase of the government's share in accordance with specified levels of petroleum production. Under Bangladesh's production sharing contracts, the split of the profit oil is 76/24 in favour of the State when the volume of production is 100,000 b/d, rising to 90/100 at 700,000 b/d. These devices for increasing the government's share of the profit oil are particularly beneficial to the host country in the event of substantial increases in prices. Without such a mechanism, the bulk of the economic rent would accrue to the oil companies, as was the case under the old production sharing contracts.

(f) Foreign tax implications of production-sharing contracts

771. The production-sharing system, as originally devised in Indonesia, posed considerable difficulty for United States-based oil companies in obtaining tax credits from the United States tax authorities, because of the absence of any provision explicitly imposing a tax liability on the oil company. Under the old production-sharing contracts, the corporate income tax was included in the production share of the national petroleum corporation. The Internal Revenue Service of the United States disallowed this manner of paying corporate income tax for purposes of offsetting foreign taxes paid against United States obligations. The Internal Revenue Service's reluctance to treat the government's share of the profit oil as containing an element of tax, qualifying for tax credit, has led to considerable modifications in production sharing contracts. Recent Indonesian agreements, although still labelled production sharing, are even closer in financial terms to a conventional income tax arrangement. Thus they provide for the production share for the national oil agency, and additionally a payment of the corporate income tax based on the contractor's income. They make provision for payments based on production, as well as for payments based on net income. Further, the limitations on costs have been dropped and capital expenditures are treated in a way that is more like the treatment of the customary allowance for depreciation. The new contracts are interesting illustrations of the way in which they can be adjusted to the various structures. They clearly indicate the possibility of adjusting the financial provisions of one contract format to the point at which they are the functional equivalent of those usually associated with another. Yet, the renegotiated agreements retain some of the typical attributes of production-sharing arrangements: payments made in oil or gas, ownership of assets vested in the State. This new system provides a further protection against windfall profits, provided that the government's "take" is increased during the negotiations or renegotiations. The system has been adopted in many countries, including some which are not yet producing countries, such as Jamaica.

B. The hard minerals sector

1. Financial and fiscal aspects of non-fuel mineral agreements

772. Governments of hard mineral producing countries have often proclaimed that the fundamental objective of their mining arrangements with foreign companies is to maximize the benefits accruing to the host country, while leaving sufficient benefits to induce the foreign company to invest. While agreements negotiated within the past decade, on the whole, resulted in greater financial returns to host countries than under the traditional concession regime, these returns fall considerably below those derived from modern petroleum agreements. The sharp decline in foreign investments in mining in recent years has imposed considerable constraints on the level of fiscal levies in the hard minerals sectors, leading some host countries to provide special fiscal and other incentives to foreign companies and to offer more accommodating mining agreements. Furthermore, the exploitation of different hard minerals calls for different fiscal formulae, depending upon the relationship between the difficulty of discovering them and the expected operating costs after discovery in relation to proceeds of sales. Different fiscal regimes are also called for by the peculiarities of particular countries, such as government policy as to State or local equity participation, the ability of the country to mobilize its own finance, and its ranking as an investment risk in the eyes of investors and financial institutions. The

cumulative result of these factors is a considerable diversity of mining agreements that do not easily admit of a simple characterization or projection as to future trends. 13/

773. Contractual arrangements for hard mineral development have not attained the wide variety that exists in the petroleum sector. Production-sharing and service contracts are still rare phenomena in mining arrangements, although there is considerable potential for the application of compensation trade arrangements to this sector. Fiscal regimes continue to be the centrepiece of mining agreements between governments and transnational corporations. Apart from the established devices of royalties, income tax, rental, mineral duty and other fiscal charges, there is increasing recourse to "free equity" as an important element of the fiscal regime. However, recent developments confirm that most countries rely on the taxation of income as the most important component of the fiscal regime for mining ventures. There has been a movement from unit of production royalties to income taxation or profit sharing.

2. Income tax

774. The prospects for the effective collection of the tax on income derived from mining operations have generally improved with the introduction of clearly established accounting procedures to be observed by mining companies. These procedures closely define such items as amortization, depreciation, deductible expenses, and tax credits, thus substantially clarifying the basis for the computation of net taxable income. It is to be noted, however, that modern agreements still fail to deal adequately with a number of issues which might impinge on the tax liability of companies. For example, the provisions dealing with transfer pricing are frequently inadequate inasmuch as they contain no explicit prohibition of abusive transfer pricing or measures designed to counteract it.

775. Recent mining agreements show considerable diversity of the rate of income tax imposed on mining companies. Nor is it meaningful to discuss a particular rate of income taxation without reference to the other components of the fiscal regime. Thus, the otherwise modest income tax rate of 33-1/3 per cent imposed by the Papua New Guinea-Ok Tedi Agreement becomes significant in the light of the other elements, namely, free equity of 20 per cent, plus an excess profits tax of 70 per cent to be triggered by a 15 per cent rate of return for the company, a royalty of 1-1/4 per cent and a dividend (withholding) tax not exceeding 15 per cent on gross dividends payable to foreigners. Nevertheless, the rates applicable to more recent mining ventures in Chile, Colombia, Jamaica, Panama, and Sierra Leone range from 40 per cent to a little over 50 per cent.

776. As in the petroleum sector, fiscal regimes for mining operations rely increasingly on the device of additional profits tax or excess profits tax to ensure that the bulk of the economic rent accrues to the host country in the event of the project becoming more profitable than was originally expected. This device contains two variables. First, the level of profitability at which the additional charge comes into operation or is "triggered", and second, the rate of the additional imposition. The Indonesian agreement of 1977 with Rio Tinto Zinc of Australia imposes a 60 per cent excess profits tax on any profits in excess of a 15 per cent rate of return. Colombia (1976), the United Republic of Tanzania (1979), Guyana (1982) and Papua New Guinea (1976-80) have all adopted the additional profits tax mechanisms, using various formulae which impose tax rates

ranging from 40 to 90 per cent after rates of return ranging from 5 per cent to 15 per cent on top of the United States prime rate. This innovative tax is made possible by the bargaining position of particular host countries with respect to different minerals. Thus, although Indonesia introduced the additional profits tax into its agreement with Rio Tinto Zinc of Australia (1977) and into its model hard mineral agreement of 1980, it was unable to include this tax in its most recent agreements, including the geothermal energy contract 1982 with Union Oil and the coal agreements with ARCO of 1981.

777. The impact of the bargaining position becomes even more evident when one considers the grant of fiscal incentives to foreign companies. Various devices have been conceded by some host countries to offer inducements for the much sought-after foreign investment in mining. Depletion allowances which take the form of a percentage deduction from the amount that would otherwise be liable to income tax are now generally discredited and rarely form part of modern fiscal regimes. The theoretical basis of a depletion allowance is that the tax system should recognize that, since a mine is a wasting resource, the assets of a mining company, unlike those of other industrial enterprises, have a finite life. However, this theory errs on two grounds. First, it presupposes that the ownership of the mineral ore is vested in the mining company, which is not the case in most countries. Second, in the absence of a precise and dependable formula for determining the value of the ore body, a depletion allowance usually takes the form of a straight percentage deduction from profits before arriving at the taxable income. In practice, the resulting tax savings of the mining company are nearly always substantially greater than any accounting valuation of the annual decline in value of the mineral assets held. In these circumstances, the depletion allowance is tantamount to an excessive tax concession.

778. More common fiscal concessions in recent years are accelerated capital allowances or accelerated rates of depreciation that permit rapid write-offs of capital costs in the early stages of a mining venture. The Chile/Noranda and Chile/San Jose agreements of 1977 both allowed pre-production expenses to be depreciated over the first five years, and the investors were also given a choice between standard and accelerated rates of depreciation of production expenses. By the Agreement of 1976 with Broken Hill in respect of Ok Tedi Copper Mine in Papua New Guinea, the mining companies were accorded the right to claim accelerated depreciation sufficient to give a total cash flow in each year of at least 25 per cent of the initial investment. As a consequence, the original investment might be recovered in four years, provided that the earnings were adequate. The Indonesia/RTZ contract (1977) granted an investment allowance of 20 per cent (of the total investment) deductible at the rate of 5% annually, together with 12.5 per cent straight-line depreciation, possibly accelerated for the first four years. Some countries, e.g. Ghana, have recently employed the old-fashioned device of tax holidays to ensure full recovery of the initial capital before the application of a corporate or mining tax.

779. A high debt-equity ratio has sometimes been conceded to the foreign company to enable it to recover a large part of the original investment in the early years of the project through the repayment of loans rather than out of dividend income, with a consequential saving of dividend withholding tax. In some recent agreements, host governments have even been constrained to freeze or stabilize fiscal regimes as an inducement to foreign investors. Chile granted to Noranda and San Jose an invariable 30-year tax regime, while Jamaica conceded to Kaiser Bauxite in 1977 exemption from further taxation until 1984.

3. Free equity

780. The term "free equity", it has been pointed out, is a misnomer. "Most of what passes for free equity in fact constitutes a form of payment by the project, or by the investor, to the government in return for the government making available the orebody which is to be mined. It would, therefore, be more appropriate to call it resource equity." 14/ Some governments, e.g. those of the Dominican Republic, Gabon, Guyana, Panama, and the United Republic of Tanzania, have succeeded in establishing their entitlement to resource equity ranging from 10 per cent to 25 per cent of the mining undertaking. However, there are other forms of State equity participation which do not conform to the conventional commercial practice of purchasing shares at prevailing market rates and, therefore, have a concessionary element which may qualify as partially free. Some recent mining agreements (Swaziland) provided that the State's equity interest would be financed from deferred dividends. The mining enterprise advances the nominal value of the shares to the government on the understanding that the advance will be repaid out of the dividends payable on those shares. The government may also acquire the option to purchase a portion of the equity at a price which would be considerably below the market price at the time of exercising the option.

781. Where the government is desirous of participating in the equity and is otherwise unable to raise funds for such acquisition, it may achieve the same purpose by borrowing to construct the infrastructural facilities for the project, and then acquiring an equity interest in return for such facilities. Yet another device that is at once a tax and offers the government the prospect of increasing its participation in the project is an option to convert part (or all) of an *ad valorem* royalty into equity participation at a prescribed conversion rate at specified phases of the project.

C. Pricing of petroleum

782. Petroleum-producing countries have substantially increased their revenues accruing from the operations of transnational corporations by asserting the right to determine the price of the petroleum produced for purposes of royalties, income tax and other fiscal charges. Various formulae have been introduced for the computation of such government-determined pricing not only in OPEC countries but also in such countries as Norway and China. This new policy goes a long way to counteract unfair or abusive transfer pricing on the part of the companies. The formulae employed for computing the price of petroleum for these purposes may be summarized as follows:

(a) The "realized price" system, in which the value is simply the amount received by the operator when it sells the petroleum;

(b) The "government posted price" system, in which the government of the host country unilaterally establishes the value for royalty and tax purposes, regardless of the amount actually received by the company;

(c) The "fair market value" system, in which a procedure is established for defining the value of petroleum by reference to some market standard;

(d) Use of reference prices (that is, the published price of some well-known crude oil) with quality and freight differentials; and

(e) A price negotiated between buyer and seller.

783. One traditional difficulty with accepting realized prices as a basis for calculating payments to be made to the host country is that most petroleum is sold in intra-company transactions, between units of a single transnational petroleum corporation, that is, "transfer pricing". The prices used for such transactions were subject to manipulation by the firm in order to reduce its total global tax liability. It was to overcome these problems that the governments of some petroleum-producing countries adopted a posted price system, but this too has difficulties. In particular, the taxation authorities of the home countries of the transnational petroleum companies (especially the United States) may not accept posted prices as a basis for the granting of tax credits. The disallowance of tax credits has the effect of reducing the amount of revenue available to be split between the host government and the company.

D. Accelerating exploration and production under mineral agreements

784. Traditional mineral agreements were notoriously lax and liberal as to the pace at which foreign companies were expected to carry out their exploration and production programmes. This defect has substantially been cured with the introduction of clearly defined work programmes that impose minimum work obligations with respect to specific phases of the project, and effectively preclude a petroleum or mining company from "sitting on the site".

785. Modern petroleum agreements stipulate the precise number of wells to be drilled over a specified period together with the minimum financial expenditure to be incurred in respect of such drilling programmes. The work obligations obviously vary considerably, depending on the oil potential, risk factors, etc., in the area concerned and whether the area is on-shore or off-shore; generally, seismic work is cheaper off-shore while drilling is more expensive off-shore. Sample provisions from some recent agreements show obligations ranging from as little as one well or an expenditure of $800,000 within two years in Colombia (on-shore), to $13 million in three years in Viet Nam (off-shore), to $68 million in five years in Iran, to nine wells at an approximate total cost of $100 million (off-shore) within six years in Norway. Seismic programmes, on the other hand, may be carried out for less than $1 million in a relatively small off-shore area or for as much as $10 million on-shore.

786. An additional incentive for the acceleration of exploration and progression toward production is provided by the stipulation of strict relinquishment requirements. A normal requirement of almost all petroleum regimes is an obligation to relinquish a certain portion of the exploration area within stated time-limits. There is considerable variation in these obligations, which are generally stricter in proven major petroleum countries, than in countries with a lower potential for oil production. In both petroleum and non-fuel mineral contracts, the surface rental is imposed to discourage dilatory tactics on the part of foreign companies.

E. The linkage of exploration and mining rights

787. An issue which is of particular relevance to mining agreements is the precise formula for linking exploration rights to mining rights. Host countries tend to prefer the postponement of a definitive mining agreement until after exploration activities have yielded definite information as to the size and quality of the mineral deposits, since such information is vital for the purpose of determining the fiscal regime and the extent of tax incentives necessary. Mining companies, on the other hand, prefer to secure the terms and conditions of the mining agreement before investing in exploration; this has been the traditional practice, but is gradually changing.

788. A compromise approach is to grant preliminary prospecting or exploration rights with the exclusive option to negotiate a mining agreement in the event of successful exploration, and to refrain from negotiating with any third party while serious negotiations proceed with the first party. This provision is coupled with a commitment to reimburse the mining company for its exploration expenses should mining rights be granted to a third party in respect of mineral deposits discovered by the original investor.

789. These various approaches have been used in different agreements. The major shortcoming of a single agreement embodying exploration and pre-determined production rights is that it is entered into at a time when the bargaining position of the host country is at its weakest. In the desire to attract the investor, and without the benefit of complete information on the project, the host country may agree to provisions for the production phase that may subsequently turn out to involve excessive concessions to the investor. While it may be possible to renegotiate such an agreement to provide for improved terms for the host country, renegotiations are not always resorted to, and the investor may continue to enjoy windfall profits at the expense of the host country. However, the possibility of excess profits arising under any kind of agreement may be dealt with in advance through provision for an excess profits tax, particularly one utilizing the concept of a maximum rate of return beyond which the tax rate may be escalated to capture an increased share of the returns for the host country — as in the case of the contracts entered into by Papua New Guinea and Indonesia.

790. Where the pre-production grant is separated from the actual mining grant, the parties may enter into a memorandum of understanding, or a letter of intent, envisaging the conclusion of a mining agreement in the event of successful exploration. Such an "agreement to agree" may lay down some or most of the provisions of the definitive agreement in conclusive terms, leaving other provisions (such as the tax regime) to be agreed upon in the light of the results of exploration and feasibility studies.

791. However, even by this approach, the investor may seek to circumscribe the discretion of the host country to such an extent as to confer on the memorandum of understanding the status of a pre-determined agreement, to be activated automatically if the investor exercises his option to proceed with mining. Alternatively, the investor may seek the conclusion of a definitive fiscal package governing mining operations before proceeding with further exploration and feasibility studies. Both of these approaches have been resisted by host countries.

792. The host country and the investor may, on the other hand, agree on a letter of intent granting the latter an exclusive option to obtain a mining licence on terms

to be agreed upon in a definitive agreement, some of these terms being predetermined in the letter of intent - as was done in an agreement between the Government of Ghana and BASCOL (owned by Kaiser Aluminum and a Japanese company). The terms agreed upon in advance included a five-year tax holiday, and thereafter a maximum income tax of 50 per cent, with capital allowances as provided under the general law; land rent at graduated rates to be determined, and royalties and minerals duty as under the general law but not to exceed 15 pesewas (cents) per metric ton of bauxite sold or processed in Ghana, and 30 pesewas per metric ton exported without processing, with increases or decreases to be agreed upon. The parties were to agree on additional provisions consistent with the viability of the project, in the light of geological investigations and feasibility studies conducted by BASCOL. In the event that a mining licence was granted to some other party in respect of the deposits worked on by BASCOL, the latter was to be reimbursed for its costs up to US$300,000. These provisions were not activated since BASCOL's feasibility study was negative.

793. The expedient of reimbursing the original investor for exploration costs in the event of a mining agreement being entered into with a third party has been used in a number of agreements. In the Ok Tedi Copper Project, the Kennecott Copper Corporation had originally conducted exploration and evaluation of the Ok Tedi copper deposits in Papua New Guinea, but had withdrawn from the project owing to lack of agreement on contractual terms - one of the major areas of disagreement being provision for an excess profits tax. The Government then took over the project, reimbursed Kennecott for its expenses, and succeeded in securing a new agreement with other investors - with the Government's expenses being converted into shares in the new mining company. Similarly, in the Panama/Texasgulf agreement, the Government issued bonds to Canadian Javelin to cover its previous exploration expenses, while entering into the mining agreement with Texasgulf, later replaced by Rio Tinto Zinc. Where the original investor continues with the project, its exploration expenditure is usually capitalized as part of its shareholding in the operating venture.

F. Developmental provisions

794. Modern mineral agreements have sought to dismantle the enclave structures under which foreign companies had operated in the past in developing countries, with little or no impact on the broader developmental objectives of host countries. The emphasis in these countries now is on introducing into mineral agreements provisions dealing with such topics as training, employment of local personnel, transfer of technology, use of local goods and services, downstream operations such as processing and refining, joint management and technical committees. All these features are designed to ensure that mineral projects have some economic and social linkages within the over-all development strategies of host countries. Although recent agreements have not yet been treated as a form of sectoral development plans, these innovations have gone a long way towards integrating the mineral operations with the development objectives of host countries.

1. Training and employment of local personnel and transfer of technology

795. Unlike the old mineral regimes which merely required foreign companies to train or employ local personnel as and when they considered it appropriate to do

so, modern mineral agreements and laws spell out precise training and employment obligations, together with specific programmes and targets, to be observed by foreign companies. 15/ In some cases, provision has been made for the licensing of industrial property items such as patents and production process. A typical training provision in the contract of 17 July 1981 between Petroperu and the Shell Oil Company requires Shell to conduct at its own expense a training programme for Peruvian personnel in accordance with a stipulated schedule to ensure that Peruvian personnel ultimately replace all foreign personnel. Mining agreements providing for management and technical services by transnational corporations are also seen as important vehicles for the transmission of technical expertise to local personnel. Under the Cerro Colorado agreement of Panama, for instance, the foreign party as administrator was to submit to Cerro Colorado a programme of training and instruction, the goal being the gradual transfer to the hands of Panamanian personnel of all operations and employment classifications - such transfer to be completed by the end of the management agreement (which was for 15 years, subject to extension).

796. Similar training programmes aiming at eventual self-management have been provided for in such other agreements as those relating to the Ok Tedi project in Papua New Guinea, the Sierra Leone/Alusuisse, Jamaica/Kaiser, Liberia/Lamco, Niger/CEA/Conoco, and Ghana/Lonrho projects, etc. The successful implementation of such training programmes would tend to eliminate or reduce the dependence of the local enterprise on foreign personnel, but not its over-all technological dependence with regard to the use of patents and technical processes. Nor does such training necessarily entail the creation of research and development (R and D) capabilities of the local enterprise, although it would of course contribute to it. Accordingly, to achieve these objectives, specific measures are needed, beyond the training of personnel. For example, under the agreement concerning the Carbocol/Intercor (Exxon) joint venture in Colombia, Intercor, as the managing partner, was also to put at Carbocol's disposal all Exxon patents and technical information pertaining to the thermal and catalytic gasification of coal, without extra charge. But Carbocol was prohibited from transferring any technology so acquired to third parties. Similarly, by the Sar Cheshmeh/Anaconda Iran technical assistance agreement, Sar Cheshmeh was granted a non-exclusive right to use patents and technical processes owned by the Anaconda group of companies.

797. The training and employment obligations may sometimes be reinforced by a provision requiring the foreign company to make a contribution to R and D in the host country. For example, in Norway, a recent requirement is that a certain share of all R and D work which is needed to bring an off-shore field into production must be carried out in Norway. As regards employment, some agreements have specified the number of local personnel to be employed, and the time and the levels at which such employment is to take place, with corresponding provisions as to the phasing out of foreign personnel (Ghana). As mentioned earlier, Indonesia has recently decided that all foreign personnel employed by foreign oil companies on their rigs must be replaced with Indonesians.

2. Economic linkages

798. Many recent mineral laws and agreements seek to promote incidental economic or industrial development by requiring foreign companies to use domestic goods and services, normally subject to the proviso that such goods and services are available on competitive terms. Some countries, such as the United Kingdom, have established machinery (The Offshore Supplies Office of the United Kingdom, for example) for monitoring the implementation of such provisions.

799. The provisions on economic linkages sometimes go further to require foreign companies to stimulate or participate in downstream operations such as local processing and the establishment of a local refinery. As mentioned earlier, Saudi Arabia now provides an inducement for the construction of local oil refineries. In the case of the Sierra Leone/Alusuisse bauxite project, Alusuisse was to establish a wholly-owned subsidiary, the Pepel Alumina Company (together with other interested investors), which was to construct and operate an alumina plant independently of the mining operations and to use the output of the bauxite mines. The alumina company was granted a package of incentives to make the investment, including a five-year tax holiday, a ceiling on import duties, and the right to make tax-free payments to Alusuisse for the provision of know-how and other services. The mining company itself was to purchase products and services from within Sierra Leone, whenever such goods were available in qualities and at prices competitive with those of goods obtainable abroad. Furthermore, all services not directly related to mining, processing, transportation, and other industrial activities, and obtainable on competitive terms, were to be obtained from local enterprises.

800. In the agreement concerning the Jamaica/Kaiser joint venture, the parties recognized the plans of the Governments of Jamaica and Mexico to build an alumina plant in Jamaica with an annual capacity of 600,000 short tons. In the event of the alumina plant being economically viable and competitive, Kaiser was to acquire an equity interest in it and also to take 200,000 short tons of alumina per annum from its output. In the Botswana/BCL project, on the other hand, the company was obliged only to process minerals in Botswana "at such time as, in the business judgement of the company reasonably exercised, it becomes commercially and economically viable to do so."

G. Turnkey contracts

801. There has been a substantial growth in the number of turnkey contracts since the mid-1970s. A major factor contributing to this growth was the investment by the oil-exporting countries of part of their capital surpluses in large-scale industrial projects.

802. Average annual orders for turnkey sales by the Federal Republic of Germany, for example, were 79 per cent higher in 1978-79 than in 1972-1974, while the orders from developing countries alone were 96 per cent higher. In 1978-1979, the value of turnkey contracts between companies in the Federal Republic of Germany and developing countries exceeded DM 5.7 billion. The growth of turnkey business is also reflected in the rapid expansion of capital goods exports from the developed to the developing countries, which averaged a 22 per cent growth between 1970 and 1980. Data for the leading industrial countries for the mid-1970s show that, as regards the location of turnkey contracts, the developing countries account for a high and sometimes a majority share in terms of the total value of contracts made (Table VI-1). Within the developing world, there has been a marked increase in the use of turnkey contracts in the Middle East, the rest of Asia, and Africa. Some Latin American countries have recently utilized turnkey contracts in the mining industry; Peru, for example, has entered into a number of turnkey contracts for the construction of a zinc refinery at Cajamarquilla (1976) and for an electrolytic copper refinery, while Bolivia has embarked on a smelter project at Kavahiapampa on a turnkey basis. The socialist countries also account for a significant proportion of the total, while OECD countries were relatively unimportant customers for these contracts.

803. The turnkey contract is a contractual arrangement whereby one party - the owner or purchaser - engages another party - the contractor - to provide a range of services and goods needed for the construction and commissioning of a project. The specific details of the contractor's responsibilities embodied in the contract vary from project to project, but would, generally, include the basic design and engineering of plant, provision of the requisite technology and know-how, supply of complete plant and equipment, design and construction of civil engineering works, complete construction of the plant and installation of equipment and the commissioning of the total plant facilities up to the stage of start-up. 16/

804. The traditional turnkey arrangement has been such that the contractor's (seller's) obligation ends with the setting up and handing over of a completed plant, whose correct technical functioning can be demonstrated by test runs. However, it has been found from experience that, while this arrangement may result in efficient project implementation and commissioning of industrial plants, difficulties may arise in the post-commissioning stage of plant operations, particularly in developing countries, if the owner/purchaser is unable to mobilize adequate knowledge and experience of plant operations. The nature of such difficulties would vary in different projects and from one country to another, depending on the complexity of the plant, on the one hand, and the technological infrastructure and domestic capability on the other. The result of a study undertaken in 1975 suggests that turnkey project suppliers frequently failed to recognize that their product must be redefined to include not only their system-building expertise, but also the necessary operating and maintenance skills. Training was frequently provided as an after-thought rather than as an integral part of the product demanded. As a result, customers in developing countries, in particular, were unable to take full responsibility for the system at the time it was put into service.

805. In response to such difficulties, a modified form of turnkey contract has been used in some developing countries (e.g., Algeria), in the sense that the turnkey contractor has often been entrusted with additional responsibilities beyond the stage of commissioning and start-up and extending to the stage of initial operations up to a defined period of time. The rationale for such an arrangement is that the turnkey contractor should not only be responsible for project construction, but should also ensure that plant operations proceed smoothly in the initial stages and that the responsibilities of the turnkey contractor should be expanded, in some cases, to the point where the product from the plant is available in the form and to the extent defined in the turnkey contract. These modified turnkey arrangements are known as product-in-hand agreements: they require the contractor to transfer extensive and effective technology encompassing the design of the plant, its adaptation to local conditions and the training of local staff to the point where the client will be able to operate the plant independently. Hence, according to this new concept, a turnkey operation should involve not only the provision of the appropriate capital goods and services, but also the acquisition by the customer of the capability to use and operate them correctly without foreign technical assistance. Another form of the modified turnkey contract has been described as the market-in-hand agreement. In this case, the project contractor is required to give assistance in, or in some cases to take responsibility for, the sale of at least part of the project's output. A variant of this type of contract is that whereby "buy-back" provisions call for the supplier to take payment directly in the form of the output of the project. It should to be noted that the new forms of turnkey contracts are considerably more expensive than traditional arrangements since they impose additional and more onerous obligations on the contractor.

806. While a turnkey contractual arrangement, either in its traditional form extending to the stage of start-up, or extending to various post-commissioning responsibilities, may be appropriate in some developing countries where the technological infrastructure is inadequate at present, a different trend is noticeable in other developing countries where considerable industrial technological development has taken place and where increasing emphasis is being accorded to the growth of technological-service capabilities. These capabilities range from the preparation of feasibility studies to detailed engineering and plant designs; civil constructions; selection and installation of machinery and equipment to the point of an effective co-ordination of various stages of project implementation. In several developing countries it is increasingly being recognized that a turnkey contractual arrangement would not necessarily promote adequate growth of national technological capabilities in the industrial sectors involved. Since the over-all responsibilities remain with the turnkey contractor, the extent to which domestic technological inputs can be effectively utilized may be limited. Consequently, in several turnkey contracts, provision is made for the association of domestic enterprises, including consulting engineering companies, so that national expertise, particularly in detailed engineering, can be gradually built up. In countries where the over-all responsibilities for the co-ordination of project implementation can be effectively exercised by national enterprises, there is a trend towards limiting the participation of transnational corporations to only those stages of project implementation where local expertise is not available. The trend in several of these countries, such as Brazil, India, the Republic of Korea and Mexico, is gradually to replace turnkey contracts by technology licence agreements for the transfer of technology in manufacturing and for the performance of basic engineering services to the extent that these cannot be performed by domestic institutions and enterprises. Such arrangements are combined with specific contracts for the supply of machinery and its erection and installation, either by foreign or domestic enterprises depending on the nature and complexity of the industrial project.

1. Advantages and disadvantages of turnkey contracts

807. A turnkey arrangement, if properly designed and executed could have the following merits:

(a) In projects undertaken by governments or State-owned or nationally-owned enterprises in developing countries, ownership and control of the plant or project in the post-contract stage is retained in the hands of the owner/purchaser. This is especially true in the case of the traditional turnkey contract where the role of the turnkey contractor may cease on the completion of the contract, as the contractor would have no share in capital ownership, and there would be no conflict in policies and in the day-to-day management of the enterprise. It may be less true, however, in the case of projects where, by reason of repayment arrangements, technology supply agreements, buy-back arrangements and other forms of industrial co-operation, a continuing relationship subsists. In turnkey projects of the product-in-hand type, although no equity ownership is assigned to the contractor, the turnkey contractor remains tied to the management of the enterprise for a limited period after completion and commissioning of the plant, because of guarantee provisions relating to test runs and performance levels. In general, even in cases where ownership of the undertaking is held entirely by the State or by its nationals of a particular country, continuing association with a transnational corporation can be ensured through technology supply arrangements or agreements for the provision of specific technological services. At the same time,

to the extent that the project is profitable, the profits would accrue wholly to the owners of the producing enterprise. However, to the extent that the project proves unprofitable, the loss would likewise have to be borne by them.

(b) In a turnkey project a major advantage to the owner/purchaser is that the responsibility for the project lies with a single party, namely, the turnkey contractor, and the owner/purchaser is normally relieved of the responsibility for any of the elements or components in the contract which may be the cause of deficient performance. The turnkey contract can be so arranged as to make the contractor solely liable for any deficiencies that may occur. Indeed, the characteristic feature of the turnkey contract is the obligation of the contractor to ensure that the plant delivered is capable of fulfilling its technical functions as stipulated. However, aside from the specific contractual provisions binding the contractor and the concerns that a turnkey contractor may have as to its reputation, there is no incentive or obligation on the part of the turnkey contractor to guarantee plant performance once the test runs have proved satisfactory and accompanying warranties are complied with, except where post-commissioning responsibilities are specifically incorporated in the contract that extend either to the stage of the product-in-hand or to some intermediate stage.

(c) A turnkey contractor can generally ensure that a project for which he accepts responsibility is put into operation more rapidly than other projects. Because both design and construction are the responsibility of one entity, parts of each can take place simultaneously. Moreover, disputes between persons responsible for design and those responsible for plant construction can be eliminated or, at least, minimized.

(d) Where a turnkey contract extends beyond the stage of commissioning to initial operations, the teething problems in complex industrial projects become the responsibility of the turnkey contractor and the owner/purchaser takes over a fully operational facility with personnel trained for the various assignments.

808. Against these advantages the turnkey contract can present several disadvantages:

(a) First, the cost of a turnkey contract may turn out to be significantly higher than the cost of contracting the various elements of the project separately on the most advantageous terms. Cost estimates for a turnkey contract are often expressed in over-all terms and without a full and detailed breakdown of the costs of various elements and supplies and technical services. Even when the costs of each stage of implementation are identified, it is difficult to determine the additional mark-up at each stage, as negotiations are usually conducted for the technological package as a whole. The cost aspect becomes increasingly pronounced when a turnkey contract is extended beyond the stage of commissioning and start-up. Apart from the costs of training the personnel of the owner/purchaser, the turnkey contract has to provide for various elements of risk and uncertainty, particularly if the product-in-hand concept is to be incorporated. Consequently, the cost of such an arrangement may be higher and an assessment needs to be made of the extent to which such costs are offset by the advantages accruing from such an arrangement.

(b) Even where a turnkey contract provides for both test runs and a product-in-hand requirement up to, say, a period of six months, the plant facility

is constructed with minimum participation by the owner/purchaser. By assigning full responsibility to the turnkey contractor, the purchaser may lose an essential familiarity with the plant that it would own and operate for many years. This disadvantage can be partially offset by providing for the association of the owner/purchaser in the course of project implementation, but, by and large, the problems may still remain.

(c) The checks and balances that exist when various responsibilities for a project are assigned to different parties are absent in the turnkey contract. This is especially true where the contractor is the supplier of the basic equipment.

(d) Apart from the cost elements and the disadvantages indicated above, it is important to stress that the turnkey contract may not be the most appropriate arrangement where it is desired that national agencies and enterprises should develop their technological capabilities in the type of project involved. The creation of a technological service capability constitutes an important objective in a number of developing countries and to the extent that such domestic capability is not utilized or built up, the turnkey contract arrangement may prove to be disadvantageous from a national point of view.

H. Management contracts

809. Many developing countries have within the past two decades resorted increasingly to management contracts as a convenient mechanism for securing the management and technical services of transnational corporations while retaining the ownership and some measure of control of the local enterprises concerned. The reason for the proliferation of these arrangements is the recognition that the objective of developing countries of assuming effective ownership and control of the sectors of their economies cannot be achieved entirely in the absence of adequate domestic managerial and technical skills. Yet, as pointed out in Re-examination, (paras. 338 et seq.), it is increasingly being realized that the functional and practical effects of these arrangements in terms of the control of the undertaking and the distribution of financial benefits may not be very different from the incidents of the traditional arrangements under which transnational corporations operated through wholly-owned subsidiaries.

810. It is hardly surprising, then, that some transnational corporations have welcomed the growth of management contracts. A study of 14 transnational companies based in the United Kingdom in the 1970s concluded that there was significant interest in management contracts as a "first best" means of earning revenue on a particular type of asset rather than as a "second best" means of exercising control and that "companies can reap substantial benefits from their (management contracts) use, especially if they set out actively to sell their stock of management skills and resources". 16/ Management contracts have the additional merit of being less vulnerable politically than equity arrangements, since they are in consonance with the ownership aspirations of developing countries.

811. Recent trends confirm that management contracts are used in numerous sectors, e.g., mining, petroleum, manufacturing, industry, agri-business, forestry, service and public utilities, and tourism. 17/ They are particularly common in those developing countries where governmental strategies for ensuring increased State ownership and control are not matched by the availability of the requisite domestic managerial and technical skills. Many African countries use management contracts

to operate mining projects (Ghana, Sierra Leone, Zaire), industrial enterprises (Ethiopia, Kenya, United Republic of Cameroon, United Republic of Tanzania), hotels (Ivory Coast, Kenya, Zimbabwe), forestry projects (Ghana, Ethiopia), and petroleum projects (Nigeria, Sierra Leone). Caribbean countries rely heavily on management agreements for the operation of their hotels. Yet, a recent report on tourism in the Caribbean concluded that the contribution of transnational corporations to the tourism industry in that region was uneven. 18/

1. Conflicts in management arrangements

812. Although developing countries and transnational corporations have found it expedient to employ management contracts, experience over the years demonstrates that the interests of the two parties often conflict. The developing country regards a management contract as a somewhat technical arrangement whereby it secures the services of a transnational corporation while retaining significant control of the policy and, to some extent, the operations of the enterprise in question. The corporation, on the other hand, may see a management contract as a device for obtaining or retaining significant control over a sector of the country's economy. Where the corporation has a profit link to the enterprise or some other tangible interest in its economic success by reason of the venture's role in its international operations, it may concentrate on the efficiency and profitability of the undertaking at the expense of the developmental objectives of the host country. The developing host country may see a management contract as a first step towards the phasing out of the foreign investments and controls, while the corporation may view the arrangement as a first step towards entry into a country and participation in its economy.

813. To a developing country, a management contract is often a transitional device that ends within a specified time, when domestic capabilities have been mobilized to take over the enterprise. A transnational corporation may, on the other hand, view the contract as laying the basis for a long-term involvement that is incompatible with the training obligations imposed in the contract or some other arrangements leading to the liquidation of its interest in the relationship.

2. Some practices of host countries

814. Some developing countries have gone through a learning experience in recent years in the light of these difficulties. In Sierra Leone, where the Government entrusted the management of a diamond mining joint venture to the foreign partner in 1971, without spelling out the management arrangements fully in a management contract, the Government has recently negotiated an elaborate management contract that defines the managing company's obligations more clearly. As noted in Re-examination, some developing countries have terminated their management arrangements with transnational corporations in consequence of such conflicts. Others have resorted to less formal arrangements designed to assure them purely technical services without conceding to the corporations the prerogatives traditionally associated with management contracts. Thus when Zambia terminated its management agreements with Roan Selection Trust and Zambian Anglo-American Company in respect of the copper mining joint venture in 1973, it replaced the previous arrangements by service agreements whereby the two transnational corporations merely undertook to second specified technical personnel to be employed by the joint venture as its own staff. The result of this restructuring is that the management has now been transferred from the transnationals to the

joint venture itself, although this transfer was facilitated by the secondment of personnel by the companies. Some developing countries have pointedly denied the use of the term "management contracts" to de facto arrangements with transnational corporations for the provision of designated technical services. Some of the more advanced developing countries which have the requisite domestic management and technical skills (Brazil, India, Republic of Korea, Mexico) are disinclined to use management contracts, particularly in the industrial sectors.

815. However, the experience of the United Republic of Tanzania of management agreements with transnational corporations demonstrates that these arrangements are not static and that they may be varied over time to conform more closely to the political and economic objectives of the host country. In the mid-1960s, this country entered into a large number of management agreements in consonance with its decision to bring a majority of its enterprises into the public sector. The National Development Corporation of Tanzania, a State-agency that supervised several agricultural and industrial enterprises as a holding company, concluded a substantial number of management contracts with foreign companies. The basic features of these contracts were:

(i) The board of the enterprise on which State officials were represented had no clearly defined supervisory functions and was relegated to a perfunctory role.

(ii) Wide ranging powers were vested in the managing company with virtually no requirement of prior approval by the board. The managing company was responsible for all critical decisions involved in management, including pricing, marketing, employment and purchase of raw materials.

(iii) No clearly defined obligations were imposed on the management company. The reporting requirements were weak and vague.

(iv) There was no provision disqualifying the managing company from providing similar services to competing enterprises in the country or indeed from setting up business on its own.

(v) The training and employment of Tanzanians were left entirely to the discretion of the managing company. No specific obligations were stipulated in this area.

(vi) No guarantees were stipulated as to the performance of the company's obligations.

816. In the early 1970s, the National Development Corporation adopted a new model management contract that introduced some improvements on the previous arrangements, particularly as regards board supervision of the managing company. Although the broad allocation of powers between the board and the company was not radically changed, the obligations of the company were now more clearly defined. The company was required to submit to the board for its approval, at the commencement of each financial year, an annual plan including a financial budget in respect of the forthcoming financial year. Provision was also made for the board to approve long-term plans for the business of the enterprise. These plans were to conform to procedures and guidelines established by the National Development Corporation for its subsidiaries. The obligations as regards localization of staff were also tightened up by a provision requiring the company to submit to the board within six

months of the agreement a detailed training programme acceptable to the board, and thereafter to submit progress reports on the training programme every six months. The company was required to prepare monthly technical, financial and commercial statements for the board. The power of the board in relation to recruitment of staff remained unaltered. Any possible conflict of interest in the course of the performance of the company's duties was forestalled by stipulations forbidding the managing company to engage in any business which competed with the enterprise.

817. Although this new contract did not drastically restrict the management powers of the company, it did attempt to involve the board more effectively in the policy-making of the enterprise. More recent Tanzanian management contracts have substantially removed the previous shortcomings. First, the recent contracts specify the obligations of the managing company in great detail and prescribe performance targets. Second, an attempt has been made to unbundle the management functions, limiting the role of the managing company to those functions which the board considers beyond its technical competence. The scope of the board's functions and powers has therefore been enlarged. These trends are reflected in two recent contracts made between the National Textile Corporation of Tanzania and an Indian company and a Pakistan company, respectively, in respect of textile manufacturing enterprises. Among the essential provisions of these contracts may be noted those concerning:

(i) Representations and warranties by the companies as to their technical and managerial competence;

(ii) Specific covenants by the companies as to good performance;

(iii) Greater accountability of the companies to the board in the performance of their duties;

(iv) Expanded scope of board control in such areas as employment and removal of staff, purchasing of plant and machinery, financial and operational plan of the enterprises;

(v) Elaborate reporting obligations for the companies;

(vi) Comprehensive localization requirements backed by organizational charts and specific schedules for engaging Tanzanians in specified professional positions;

(vii) Elaborate training schemes to be implemented by the companies;

(viii) Specific guarantees by companies as to minimum production and export levels;

(ix) Compliance with Tanzanian policy as regards wages, salaries and labour;

(x) The subordination of the management contracts to approval of the Government, so as to ensure that management contracts negotiated by all State enterprises conform to general government policy.

I. Review and renegotiation of contracts

818. In Re-examination there was considerable discussion of the question of the instability of contractual régimes, and of the theory and practice of the review or renegotiation of contractual relations. In more recent years, while the controversy over this question persists, particularly in the case of mining agreements, there is increasing appreciation of the complexities of the problems which may arise in this connection, and various efforts have been made to deal with them through contractual and international mechanisms.

819. Officials of developed market economy countries and international mining companies from these countries have asserted that the recent drastic decline in mining investment in developing countries is attributable not so much to expropriation as to improper intervention, by host governments, designed to effect major changes in the contractual régime. In a recent submission to the Commission of the European Community the mining companies declared: "The possibility of revolution or sudden political change leading to expropriation has long been recognized by overseas mining companies. What is new is the manner in which host governments can exploit a mining company's necessary vulnerability (in the early stages of a project when very large funds are immobilized in the mine) to impose major changes in the operating conditions with impunity and the general acquiescence of the international community". 19/ The mining companies accordingly proposed the creation of some international insurance scheme against the political risk traceable to such intervention.

820. However, as M. Faber and R. Brown, of the Commonwealth Secretariat, have pointed out, the problem of contractual instability has very little to do with delinquent conduct on the part of host governments or with the concept of political risk. "Much of the instability in the operating conditions about which the companies are complaining is either inherent in the nature of mining business, or a consequence of the way in which mining investment has to be fitted into a rigid contractual framework from a very early stage in the life of a project. It has very little to do with anything which could normally be described as politics". 20/

821. Transnational mining companies justifiably point to the vast financial implications of the increase in the lead time of a modern mining project, that is the time lag between the initial survey and production, which may be as long as ten years. Having regard to the size of the risk capital involved, and the conditions stipulated by their financiers, transnational corporations insist, as a matter of prudent investment policy, on definitive long-term guarantees as to the fiscal package offered by host governments even before embarking on the preliminary phases of survey, exploration and prospecting. They maintain that such projects cannot be mounted without solid financial backing from banks and other institutions, and that such institutions will not assure the requisite financing in the absence of unequivocal guarantees from host governments in respect of the financial package for the entire duration of the agreement.

822. Understandable as the financial concerns of transnational corporations may be, the very nature of such long-term assurances poses acute problems for a host developing country. In the nature of things, the government of such a country is expected to determine the price of the ore or the fuel, the tax payable, the royalty and other impositions chargeable and all the elements of the fiscal régime over a 10, 15 or 30-year period even before it has any idea of the size of the ore body or the economic prospects of the resource. The feasibility study for the

project, which should properly be the basis of any fiscal régime, is prepared not before but after the conclusion of the long-term contract. Hence, a government which is anxious to attract an investor is compelled, by its weak bargaining position and the insistence of transnational corporations and their banks, to conclude long-term fiscal arrangements without the benefit of all the facts essential to the determination of the components of that package. The result is that these transactions tend to be lopsided and highly advantageous to the investor. However, in time, the bargaining position changes. The feasibility report is prepared, the government has a better appreciation of the size of the ore body and the economic prospects of the undertaking. The venture may turn out to be much more profitable than was previously expected, and the company may be in full production, realizing a high rate of return. In these circumstances, whatever the lawyers may say about the sanctity of contracts, 21/ the government may be constrained to call for a renegotiation of the agreement.

823. As indicated above, both developed and developing countries now claim that, as sovereigns, they are entitled to the bulk of the economic rent generated by natural resource projects. The devices of windfall profits tax and excess profits or additional profits tax which have been employed by such diverse countries as Indonesia, Malaysia, Norway, Papua New Guinea, the United Kingdom, the United Republic of Tanzania, and the United States are based on the principle that the fiscal and financial régimes of natural resource agreements may be legitimately reviewed with the object of securing for the host country the major part of the financial benefits accruing from such agreements. Where these devices have not been previously stipulated in agreements, the host governments concerned would consider themselves entitled to call for appropriate renegotiation of the contractual régimes.

824. As can be seen from the foregoing remarks, renegotiaton is neither the product of irresponsible exercise of sovereign power, nor the peculiar "vice" of governments of developing countries. Many recent renegotiations have in fact been conducted at the instance of transnational corporations to alleviate acute financial pressures on such companies. Among the agreements which have been so revised are those between Jamaica and Kaiser (bauxite, 1979), Haiti and Reynolds (bauxite, 1979-1980), Botswana and Roan Selection Trust (nickel, 1979/1980) and Colombia and Shell Group (nickel, 1977). Several Japanese mining companies have similarly secured favourable renegotiations of their mining agreements with various Australian states. From this evidence it is clear that renegotiation is inherent and inevitable in long-term transactions that have to contend with changing economic conditions or with situations which were not foreseen at the time of the conclusion of the original contract. It is increasingly realized that the principal reason why contracts have to be renegotiated or reviewed is the failure of the parties to foresee and take into account all the situations and vicissitudes that may arise during their period of validity.

1. Mechanisms for reviewing contracts

(a) Contractual

825. Some measure of stability in contractual régimes is provided by the stipulation of an excess or additional profits tax in mineral agreements. This device affords a precise formula for redistributing the financial benefits accruing from a project when it begins to realize a designated rate of return. A similar mechanism is the price cap introduced in Angolan production sharing contracts alluded to earlier.

826. A few contracts have followed the practice, noted in Re-examination, of making express provision for their review or renegotiation. Indonesia, for example, has since 1976 adopted the policy of inserting such a provision in all hard minerals agreements. The contract of work concluded between Indonesia and RTZ in June 1977 accordingly provides as follows:

> "At any time during the term of this Agreement the Company and the Government will consult with each other to determine whether, in the light of all relevant circumstances, the financial or other provisions of this Agreement need revision. Such circumstances shall include the conditions under which the mineral production is carried out (such as the size, location, and overburden of mineral deposits, the quality of the mineral), the market conditions for minerals, the then prevailing purchasing power of money and the terms and conditions prevailing for comparable mineral ventures.
>
> "In reaching agreement on any revision of this Agreement pursuant to this article, both parties shall ensure that no revision of this agreement shall prejudice the Company's ability to retain financial credibility abroad and to raise finance by borrowing internationally in a manner and on terms normal to the mining industry." 22/

(b) International

827. It is noteworthy that clauses have been adopted or proposed in international instruments which make provision for the renegotiation or review of contractual arrangements, even in the absence of express contractual provisions in this regard.

(i) Lomé Convention II

828. The second Lomé Convention between the ACP (African, Caribbean and Pacific) Group of countries and EEC countries of 1979 provides for the conclusion of bilateral investment treaties between ACP countries and EEC countries on the treatment of investments. In the Joint Declaration on Investments relating to Article 64 of the Convention, the right of a host State to review the treatment of investments is recognized in these terms: "The ACP State shall have the right to modify or adapt this treatment when international obligations and/or changed de facto circumstances so necessitate." 23/ The possibility of modifying the treatment of investments in the light of changed circumstances is a significant departure from traditional doctrines regarding the inviolability of contracts.

(ii) The United Nations Code of Conduct on Transnational Corporations

829. After an exhaustive and difficult debate, the Intergovernmental Working Group entrusted by the Commission on Transnational Corporations with the drafting of the Code has prepared the following provision on the renegotiation and review of contracts for inclusion in the Draft United Nations Code of Conduct on Transnational Corporations:

> "Contracts between Governments and transnational corporations should be negotiated and implemented in good faith. In such contracts, especially long-term ones, review or renegotiation clauses should normally be included.

"In the absence of such clauses and where there has been a fundamental change of the circumstances on which the contract or agreement was based, transnational corporations, acting in good faith, shall/should 24/ co-operate with Governments for the review or renegotiation of such contract or agreement." 25/

Although the Code of Conduct has not yet received final approval, the above text is likely to form an important part of the definitive instrument.

830. The foregoing developments point to a more flexible approach to the stability of contractual relations and are evidence of a serious attempt to devise mechanisms for eliminating or containing a major source of conflict between host governments and transnational corporations.

Notes

1/ More extensive coverage of these trends is to be found in the following studies conducted by the United Nations Centre on Transnational Corporations:

(i) "Main features and trends in petroleum and mining agreements" Technical paper, 1981.

(ii) "Alternative arrangements for petroleum development: a guide for government policy-makers and negotiators", ST/CTC/43, September 1982.

See also, Asante, S.K.B., "Restructuring Transnational Mineral Agreements, American Journal of International Law, Vol. 73, (No. 3, July 1979), pp. 335-371.

2/ Barrows, Gordon, H., World Petroleum Arrangements, Barrows Co., New York, 1980.

3/ "Permanent Sovereignty over Natural Resources," Report of the Secretary-General(E/C.7/119), 7 May 1981.

4/ United Nations Centre on Transnational Corporations, "Transnational corporations and contractual relations in the world uranium industry", Technical paper, 1982.

5/ Fesharaki, Fereidun, Evolution of Petroleum Agreements: An Economist's Interpretation, Resource Systems Institute, East-West Centre, Honolulu, June 1980.

6/ "Main features and trends in petroleum and mining agreements", op. cit.

7/ See International Legal Materials, vol. 21, January 1982, pp. 132-136.

8/ See "Permanent sovereignty over natural resources", report by the Secretary-General, forthcoming 1983.

9/ See Asante, S.K.B., "Restructuring Transnational Mineral Agreements", op.cit. See also Asante, S.K.B. and Stockmayer, A., "Evolution of Development Contracts: The Issue of Effective Control" in United Nations Department of Technical Co-operation for Development and German Foundation for International

Development: Legal and Institutional Arrangements in Mineral Development, Mining Journal Books, London, 1982, pp. 53-67.

10/ See "Case Studies in the Negotiation and Implementation of Mining Joint Ventures: Zambia, Ghana and Sierra Leone", prepared by the United Nations Centre on Transnational Corporations with the assistance of Professor S.K. Date-Bah, June 1981.

11/ See generally "Alternative arrangements for petroleum development", op. cit. and "Main features and trends in petroleum and mining agreements, op. cit.

12/ Faber, M., "Some New and Old Devices in Mineral Royalties and Taxation" in Legal and Institutional Arrangements in Mineral Development, op. cit. pp. 104-122.

13/ Ibid, at p. 109.

14/ See generally Zakariya, Hasan S., "Transfer of Technology under Petroleum Development Contracts", Journal of World Trade Law, vol. 16, (No. 3 May:June 1982), pp. 207-222.

15/ United Nations Centre on Transnational Corporations, "Features and issues in turnkey contracts in developing countries, July 1981 (forthcoming United Nations publications).

16/ Ellison, R.J., "Management Contracts", Multinational Business, March 1976, p.26.

17/ See United Nations Centre on Transnational Corporations, "Management contracts in developing countries: an analysis of their substantive provisions: Technical paper, ST/CTC/27.

18/ Chen-Young and Associates, Transnationals and Tourism in the Caribbean, a study prepared for the Commonwealth Secretariat, Kingston, 1977.

19/ Quoted in Faber, M. and Brown, R. "Changing the Rules of the Game", Third World Quarterly, Vol. 11, No. 1, January 1980, p. 100.

20/ Ibid., p. 115.

21/ See generally Asante, "Stability of Contractual Relations in the Transnational Investment Process", International and Comparative Law Quarterly, Vol. 28, 1979, p. 401.

22/ Quoted in Gillis, M. and Beals, R.E., Tax and Investment Policies for Hard Minerals, Ballinger Publishing Co., Cambridge, Mass., 1980, p. 180.

23/ The second ACP-EEC Convention, signed in Lomé on 31 October 1979, Annex IX, para. 2(b); text in the Courier ACP-EEC, No.58, Special issue, Brussels, November 1979.

24/ The formula "shall/should" denotes disagreement, not yet resolved, as to whether the Code will be legally binding or voluntary.

25/ Report of the Intergovernmental Working Group on a Code of Conduct on its fifteenth, sixteenth and seventeenth sessions, United Nations document E/C.10/1982/6, annex, para. 11, p. 5.

Annex

RECENT TRENDS IN INTERNATIONAL BUSINESS ARRANGEMENTS WITH ORGANIZATIONS AND ENTERPRISES IN SOCIALIST COUNTRIES

(The following is in part a summary of a paper prepared for the Centre on Transnational Corporations by the secretariat of the Economic Commission for Europe)

Introduction

1. In Re-examination, the various forms of industrial co-operation between enterprises of market economy countries, particularly transnational corporations, and the enterprises and organizations of socialist countries, were described. Industrial co-operation, which until the late 1960s was a factor of relatively marginal importance in East-West economic relations, progressively became during the 1970s an important element in the development of commercial, financial, and technological relations between socialist countries and the industrialized market economies. The 1970s, particularly the second half of the decade, witnessed a steady growth and refinement not only of contractual arrangements, such as compensation agreements, co-production, project co-operation and joint ventures, but also financial transactions. The result was a considerable expansion of economic relations between East and West and also between East and South, covering areas beyond those of traditional East-West industrial co-operation. Furthermore, within the past few years China has introduced major policies admitting the participation of foreign enterprises in its economy through a variety of business arrangements. It is proposed to review recent developments in the various forms of these business arrangements with the socialist countries of Eastern Europe and China.

A. East-West industrial co-operation

1. Compensation agreements

2. Compensation agreements providing for the supply of plant, equipment and/or technology by transnational corporations and for payment therefor by organizations of socialist countries with the resultant products, have become prominent in East-West industrial co-operation. Some of these arrangements, particularly those relating to resource projects, have evolved into large-scale and long-term arrangements encompassing a complex network of inter-related contracts, namely: (i) the sales contract for the supply of equipment, licences, and the provision of the required technology; (ii) the loan agreement for the provision of finance; and (iii) the purchase contracts (usually on a long-term basis) under which the buy-back transactions are effected.

3. According to a survey conducted by the ECE Secretariat in 1981, although compensation agreements accounted for 20 per cent of the number of East-West industrial co-operation contracts recorded at the ECE Secretariat, these arrangements represented some 80 per cent of the value of the contracts. Most of the large-scale compensation agreements are employed in the natural resources and intermediate goods sectors. The total value of such contracts signed between 1968 and 1980 is estimated at $20 billion. In 1980, negotiations were initiated between

the USSR and firms and banking consortia in Austria, Belgium, France, the Federal Republic of Germany, and the Netherlands for the construction of a 5,500 km gas pipeline that would link natural gas deposits in the Yamal peninsula in Northern Siberia to Western Europe. This agreement involves the provision of a long-term loan currently valued at $11 billion. Another agreement currently under negotiation with Japanese firms and Japan's Export-Import Bank for the exploitation of gas resources in the Sakhalin Islands is reported to involve a $3.5 billion loan for the supply of steel pipes.

4. The sectoral and geographical distribution of large-scale compensation agreements in the natural resources and intermediate goods sector is shown in the table appended to this annex. A number of such arrangements have also been concluded in respect of the manufacturing and service industries, particularly the electrical engineering and transport equipment sectors. The Western parties to these large-scale projects tend to be leading transnational corporations or public utilities or metallurgical or engineering firms in the public sector.

2. Co-operation based on co-production and specialization arrangements

5. Although co-operation in the manufacturing industry is of comparatively recent origin in socialist countries - the early 1970s for most countries and some in the mid-1970s - it is numerically the most significant form of East-West co-operation, accounting for approximately 40 per cent of the total number of contracts identified by the ECE Secretariat. Unlike compensation agreements, co-production and specialization arrangements have attracted a good many small- and medium-sized Western enterprises. In a recent survey by the ECE Secretariat of the Hungarian experience in this field, it was found that only 28 per cent of Western enterprises parties to co-operative arrangements with Hungarian firms could be classified as large- or medium-sized transnational corporations. Similar conclusions are drawn by a study of co-operation arrangements in Poland.

3. Project co-operation, including co-operation in third markets and tripartite co-operative schemes involving developing countries

6. A refinement of co-production is project co-operation, whereby a Western enterprise and an Eastern organization undertake the execution of an investment project of which the customer may be located in the country of either of the partners or, more frequently, in a third country, usually a developing country. Tripartite projects constitute a type of co-operation among at least three enterprises (or organizations) based in the countries of these regions (East-West-South) for the purpose of carrying out various elements of a project. The project may involve the supply or establishment of industrial plants or production lines, the building up of physical infrastructure, the exploration for and production of natural resources, assembly work or marketing. The institutional arrangements for such co-operation may take the form of a loose co-ordination mechanism or more formal structures, such as consortia or sometimes joint ventures. Although project co-operation contracts account for a relatively small share of East-West contracts identified by the ECE Secretariat, the evidence points to a steady growth of such arrangements since the mid-1970s. Three main factors are responsible for this growth.

7. In the case of joint tendering, the two main motivations are the possibility of one partner gaining market entry through the established presence of the other

partner and the savings made by both partners through joint preparation of the project tender. Tripartite co-operation, on the other hand, is of growing interest because it often permits Western firms to dispose of their counter-trade obligations by forming an association with an Eastern enterprise in a third market. In other words, many Western firms have signed industrial co-operation agreements with enterprises of Eastern countries under which the deliveries of the Western firm concerned to a joint project in a third country are counted as compensatory purchases from the Eastern country whose enterprise is the partner of the Western firm in the third country. Other motives increasingly cited by Eastern enterprises include the desire to respond to demands of developing countries in fulfilment of co-operation treaties, the need to obtain complementary Western technology and/or special equipment and the ability to take advantage of Western equipment and services if they prove to be either cheaper or of a superior technical capability. This form of co-operation also provides Eastern enterprises with new sources of finance.

8. Although a number of transactions are reported to have been concluded by small- and medium-sized Western enterprises, the majority of projects appear to have been undertaken by large, usually transnational, enterprises.

4. Joint ventures in Eastern European countries

9. Equity joint ventures between transnational corporations and enterprises of socialist countries are still a rare phenomenon in Eastern European countries, as is direct foreign investment, despite the promulgation of laws in recent years in a number of these countries permitting or facilitating the entry of foreign capital. In fact, only Hungary, Poland, Romania and, more recently Bulgaria, have allowed direct foreign investment. At the end of 1981, the total number of equity joint ventures located in Bulgaria, Hungary and Romania did not exceed 20. Furthermore, with the exception of one large project in Romania (the Oltcit Company for the production of a new model of passenger cars), most of the projects are relatively small, compared with the large-scale compensation arrangements or some of the co-production arrangements referred to earlier. Most joint ventures in operation - or under negotiation - have been concluded with Western European, United States or Japanese transnational corporations (such as Citroen, Control Data, Corning Glass, Ciba-Geigy, Fujitsu, Siemens or Volvo), particularly in the passenger car, electronics, data processing and pharmaceutical sectors.

10. The foreign investment regime established in Bulgaria by Ordinance No.535 of the Bulgarian Council of State (1980) is a recent example of a promotional effort by a socialist country in this area. The declared purpose of the legislation was "to encourage economic co-operation between Bulgarian legal entities and foreign legal entities and individuals by establishing conditions with regard to legal, financial, credit, customs and other aspects favourable for organizing an economic activity on the basis of mutual profit." Joint ventures in Bulgaria or elsewhere are expressly designated as one of the permissible forms of economic co-operation between such entities and persons; while economic co-operation is authorized in scientific and technical fields, production, project engineering, applied research and testing, and merchandising, industry, agriculture, building construction, trade, transport, services and tourism.

11. As intimated earlier, the modest expansion, by legislative measures, of the scope of direct foreign investment in some socialist countries has not added greatly to the number of equity joint ventures in these countries. Although

Western firms are reported to be satisfied with the performance of their joint ventures in some socialist countries of Eastern Europe, the number of Western firms interested in establishing joint companies in Eastern Europe has apparently declined.

B. New types of transactions

12. Since the mid-1970s, new types of contractual arrangements have been devised to facilitate the expansion of Eastern European exports to developed market economies. These are essentially reciprocal trading arrangements whereby explicit linkages are established between given export and import transactions. Counter-purchase transactions constitute the most important type of such linked trading arrangements.

1. Counter-purchase transactions

13. A counter-purchase arrangement may be broadly defined as a commercial transaction, usually concluded through several related sales and purchase contracts, whereby the seller agrees, as part of his contractual obligations, to purchase goods and services from the buyer up to an agreed percentage of his deliveries. Although they have a number of common features, both being based on separate contract payment mechanisms, counter-purchase transactions should be distinguished from the large-scale "compensation" agreements of the product buy-back described above. The main differences are threefold: (i) in the first place, large-scale compensation agreements are based on the buy-back of resultant (or, at least, related) products, whereas counter-purchases involve the exchange of often unrelated products; (ii) in large compensation projects, the buy-back of resultant products is linked, as a rule, to the reimbursement of long-term loans and credits, while deliveries and counter-deliveries of goods and services under a counter-purchase contract take place simultaneously or within short time intervals, and, in any case, are not linked to the reimbursement of a long-term loan; (iii) projects based on the buy-back of resultant products are usually large undertakings which involve considerable sums with respect to both deliveries and counter- deliveries, whereas counter-purchases are usually small or medium-sized transactions. In each of the two cases, however, complex contractual, financial and organizational schemes have to be used in order to carry out the transaction successfully.

14. An increasing number of transactions, particularly in such countries as the German Democratic Republic and Romania, are reported to be conducted under such arrangements. In Romania, the interest of the authorities in counter-purchases and related linked trading arrangements was confirmed by the enactment of a decree in 1979 (further reinforced by a law passed in 1980) to the effect that Romanian foreign trade organizations should "achieve a balance between imports and exports, especially through the conclusion of long-term counter-purchase contracts". The law provides further that "imports of plants, machinery, tools and components shall be made in particular within the framework of co-operation and export activities in exchange for products of the machine-building sector". Although no specific legislation to this effect was passed in the German Democratic Republic, 38 per cent of the country's exports to market-economy countries were reported at the end of the 1970s to be conducted on the basis of reciprocal trading arrangements.

15. For Eastern European foreign trade organizations, which in most cases took the initiative of proposing counter-purchase arrangements to their Western partners, counter-purchases facilitate the fulfilment of a number of functions such as: (i) the implementation of export plans (a factor of increasing relevance in view of the difficulties encountered as a result of recessionary conditions in the West); and (ii) access to new markets through delivery of counter-purchases products and the establishment of new trading contacts which, at a later stage, may develop into long-term co-operative relationships.

16. From the viewpoint of Western firms, counter-purchases are mainly considered as trading instruments intended to facilitate the conclusion of export contracts which would otherwise have been lost to competitors. Counter-purchases are accordingly viewed as a pre-condition - often accepted reluctantly - for maintaining (or expanding) their access to Eastern markets. However, despite the importance of their trade-promoting (or trade maintaining) function, counter-purchase transactions suffer from a number of shortcomings for both Eastern and Western enterprises, and for this reason new avenues are being explored. Among the difficulties associated with the preparation and implementation of counter-purchase contracts are: excessively lengthy and cumbersome registration procedures; difficulties in locating, obtaining and disposing of products accepted as counter-deliveries; delays in or poor quality of counter-deliveries; application of excessive penalties for non-fulfilment of contractual obligations; restrictions on resale of products to third markets; and the special difficulties of small- and medium-sized enterprises of entering into such deals.

17. These and related shortcomings partly account for the efforts in both Eastern and Western countries to devise alternative arrangements. One such arrangement is the use of co-operation in marketing as a complement to or as a substitute for counter-purchase arrangements. Another arrangement, of increasing importance between socialist countries and large transnational corporations, is the integration of all transactions of a given firm into a global agreement which covers all activities of the partners.

2. Marketing co-operation as a complement to or substitute for counter-purchase and other arrangements

18. Joint operations in third markets or in the partner's own markets may be used as a substitute for or as a complement to counter-purchases and related trading arrangements. As they may also - and often are in fact - combined with various forms of industrial co-operation (co-production, specialization, sub-contracting, etc.), a wide variety of transactions becomes possible in practice.

19. Co-operative arrangements may be limited to the provision of assistance in the field of marketing - for example, through the use of the partner's distribution network - or provide for more elaborate forms of collaboration. In some cases, provision may be made for the partner enterprises to be associated in carrying out investment projects abroad - for example, through sub-contracting consortium-type arrangements.

20. A number of East-West ventures have reportedly been set up in recent years by sellers of capital goods for the explicit purpose of meeting counter-purchase obligations incurred by them. The contribution of the Western exporter of capital and management to the joint venture becomes a substitute for the counter-purchase obligation he would otherwise have had to accept. Such joint ventures - still

limited in number and size - have been set up by chemical companies, as well as by firms in the machine-building and consumer-goods sectors. In addition to ensuring the marketing of the products of the Eastern partner and providing after-sales services, the joint venture often performs essential functions, such as upgrading and finishing operations, to adapt the products to the requirements of the partner's market.

21. Indeed, this form of co-operation in marketing both as a complement and an alternative to other forms of trade and industrial co-operation can be regarded as one of the major developments of the last ten years in East-West trade. Of the many forms of marketing co-operation, one of the more important, as regards both the number and magnitude of the projects undertaken, is the setting up of joint marketing companies. Most of these were established during the 1970s; by 1980 they were estimated to exceed 200 in number. Marketing companies are the principal type of Eastern investment in developed market-economy countries. According to a recent survey, the capital invested in marketing subsidiaries and joint marketing companies at that time totalled approximately $100 million, while the value of the corresponding fixed assets was estimated at $225 million. The capital invested per company amounted on the average to $900,000, with a minimum of the order of $50,000 for small companies, and a maximum of $200,000 for large marketing companies with extensive distribution networks and — in some cases — with affiliates in several countries. Depending on the country concerned, of the import and export transactions of socialist countries those conducted through wholly-owned marketing subsidiaries or joint marketing are estimated to account for 15 to 30 per cent of Eastern exports to the West. Far from being limited to the promotion of Eastern exports, these companies also play a role in the marketing of Western goods on Eastern markets: in 1977 the value of exports handled directly or indirectly by these companies was estimated to be of the order of $1 billion, or approximately 4 per cent of all the developed market-economy countries' exports to Eastern Europe.

3. Integration of all transactions of a given firm into a global agreement

22. When a certain volume and a certain diversification of commercial and industrial transactions have been attained, a growing number of Western enterprises, most of them large transnational groupings, find it advantageous to conclude a "general agreement" designed to regularize over a long period - in most cases, five years or more - a wide variety of exchanges with entire industrial sectors (chemicals, automotive, etc., as the case may be) of an East European country. These agreements usually take the form of an umbrella agreement and are frequently referred to as a "protocol" which is signed with a Ministry or with a foreign trade organization acting as co-ordinator on behalf of all the foreign trade organizations and enterprises concerned.

23. The advantages of such a protocol for a Western firm can be classified under two main headings, depending on whether it relates to the sales or to the purchases of the enterprise in question. In the first place, the Western firm obtains regular and - in most cases - increasing markets for the products with a high value added produced in their own manufacturing facilities and for the machinery, equipment and modern technology which it sells to its Eastern partner as part of the global arrangement. In the second place, it obtains in exchange supplies of raw materials, intermediate or finished products which it can use according to need in its own manufacturing facilities. An additional advantage is that enterprises are no longer obliged to negotiate counter-purchase or buy-back agreements on a case-by-case basis.

24. For Eastern enterprises and organizations, a number of benefits derive from such an "umbrella" agreement: First, they obtain access on a long-term basis to Western markets — which is consistent with their own medium- and long-term planning. Second, in addition to making regular deliveries of products, equipment and technology, they may be able to initiate a wide variety of co-operative projects in the technological, industrial and commercial fields.

25. Under a global agreement signed in 1976 by a large chemical firm of France with the Ministry of Foreign Trade of the USSR the programme of mutual exchanges outlined in the agreement had an estimated value of FF 6.0 billion and envisaged:

- deliveries of fertilizer, pesticide and plastics plants by French contractors, incorporating process technologies of the firm in question;
- the purchase of speciality chemicals of the French company by Soviet enterprises, up to an agreed percentage of the value of the plants;
- the purchase by the French firm of Soviet petroleum-based products, including naphtha, ammonia and methanol, over a ten-year period.

26. This French company signed a protocol agreement of the same type of with a Hungarian foreign trade organization in 1976, which also contained a broad range of provisions for trade and co-operation in several specific sectors of the chemical industry. The protocol was supplemented, in the autumn of 1978, by an "industrial general contract" providing for co-operation between the French group and the entire Hungarian chemical sector.

27. In December 1980 the French company was reported to have agreed on a new ten-year agreement with the Soviet Union providing for mutual exchanges valued at $7 billion. These included delivery to the USSR of complete chemical plants, agricultural chemicals, feedstuffs and artificial fibres, while the Soviet Union was to supply crude oil, naphtha and various chemical intermediates.

28. Similar agreements have been concluded or are being negotiated by Eastern European countries with other large chemical firms in Western Europe and the United States. Although these are still limited in number, their trade-creating effect is much greater than that of the individual buy-back and counter-purchases arrangements concluded by other firms in sectors or industries where no such broader arrangements have yet been made. If, as seems the case, they are generalized, such practices could result in a considerable broadening of the whole concept of "linked" transaction.

C. China's economic relations with foreign enterprises

1. Policy objectives and principles

29. In order to accelerate its modernization, while relying mainly on its own efforts and maintaining its commitment to self-reliance, China has since 1979 initiated new policies concerning economic and technological co-operation with foreign firms and the admission of foreign capital, technology and equipment. Article 18 of the Constitution adopted in December 1982 states that "the People's Republic of China permits foreign enterprises, other foreign economic organizations and individual foreigners to invest in China and to enter into various forms of

economic co-operation with Chinese enterprises and other economic organizations in accordance with the law of the People's Republic of China"; that "all foreign enterprises and other foreign economic organizations in China, as well as joint ventures with Chinese and foreign investment located in China, shall abide by the law of the People's Republic of China" and that "their lawful rights and interests are protected by the law of the People's Republic of China."

30. Two basic principles govern China's policy with respect to inward investment: the relationship should be based on the principle of "equality and mutual benefit" and the investment should meet "the needs of China's economic readjustment, four modernizations and the improvement of the living standards of the people".

31. In conformity with the principle of equality and mutual benefit, contractual arrangements negotiated between Chinese and foreign investors must guarantee the legitimate rights and interests of both sides. The contracts and agreements negotiated must not contain any provision that is detrimental to China's rights and interests or to the rights and interests of foreign investors, including their profit-making objective. Furthermore, the Constitution specifies that "all the partners are equal before China's laws without any discrimination". The partners of joint ventures and co-operation enterprises manage them jointly. Once the contracts or agreements have been signed, China expects the foreign investor to honour the terms agreed upon. The Government for its part pledges itself to fulfil the obligations stipulated in the contracts.

32. The second principle, that the investment should meet the needs of China's economic readjustment, is to be applied by ensuring that the investment conforms to the following major objectives: first, it should be made in the priority areas selected by the government for foreign investment. According to the Sixth Five-Year Plan adopted by China in November 1982, the priority areas are (i) energy and transportation; (ii) light industry, textile industry, food industry, pharmaceuticals, telecommunication and electronic industry; (iii) building materials, machinery, iron and steel and chemical industries; (iv) agriculture, animal husbandry and animal breeding projects; and (v) tourism.

33. Secondly, the foreign investment must satisfy the following requirements: it should bring in advanced technology and scientific management; it should contribute to the technical transformation of existing enterprises; it should help achieve quicker and better economic results with less capital investment and energy and material consumption; it should diversify export products and enhance foreign exchange earnings; and it should contribute to the training of Chinese technicians and managerial personnel.

2. Legal and regulatory framework

34. Since 1979 China has promulgated fourteen laws, rules and regulations concerning the utilization of foreign investment. The first of these adopted in July 1979 was the Law on Joint Ventures Using Chinese and Foreign Investment which provides the basic principles and the framework for inward investment and technology transfer in the form of joint ventures. In particular, it emphasizes that the technology or equipment contributed by the foreign partner must be "truly advanced" by international standards and "appropriate to China's needs", and that the foreign partner is liable for any intentional deception in this matter.

35. In July 1980, regulations were enacted giving effect to that law, viz. Regulations on Registration of Joint Ventures Using Chinese and Foreign Investment and Regulations on Labor Management. In September 1980, the Income Tax Law Concerning Joint Ventures as well as the Individual Income Tax Law were promulgated, while detailed rules and regulations for the implementation of these laws, as well as for provisional exchange control regulations were adopted in December 1980. In January 1982, Regulations on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises were promulgated.

36. These laws, rules and regulations - the first of their kind in modern China - constitute the legal framework for the utilization of foreign investment and establishment of joint ventures in China. Joint ventures are legal entities subject to the jurisdiction of Chinese law and, at the same time, protected by the laws of China.

37. Certain areas have been demarcated in Guangdong and Fujian provinces as "Special Economic Zones" (SEZs). Overseas Chinese, compatriots from Hong Kong and Macao, and businessmen from other countries are welcomed and encouraged to set up businesses entirely on their own or to establish joint ventures with Chinese enterprises in the SEZs, qualifying for preferential treatment.

3. Trends in the flow of foreign investment

38. By the end of 1981, 40 joint ventures using Chinese and foreign capital had been approved by the Government, representing a total investment of $189 million, of which the foreign share amounted to $87.5 million. Most of these joint ventures are in light industry, machinery and electronic appliances, tourism and travel services, pharmaceuticals and animal husbandry. In addition to these joint ventures, more than 390 contracts for co-operation enterprises had been approved with a total investment of $1.8 billion provided by foreign partners. 590 projects for medium- and small-sized compensation trade had been approved and put into operation; the value of the machinery and equipment provided by foreign investors amounted to approximately $460 million.

39. China has concluded and implemented nine agreements for the carrying out of geophysical surveys of potential petroleum resources in the South China Sea and southern Yellow Sea with 48 oil companies from 13 countries, including France, Italy, Japan, the United Kingdom, and the United States. Four contracts concerning oil exploration and exploitation in Bo Hai and a part of Beibu Gulf have been concluded with a Japanese consortium and two French oil companies. The total investment in petroleum exploration was $839 million, of which $498 million was provided by the foreign investors.

Sectoral and geographical distribution of large-scale compensation agreements

A. Sectoral distribution of deliveries under compensation agreements

	Value of contracts signed, 1968-1980 (Millions of dollars)	Percentage distribution
Gas	3 500	17.8
Oil	325	1.7
Coal	1 250	6.3
Timber, paper pulp	750	3.8
Chemical products	10 105	51.8
Ferrous metals	2 910	14.8
Non-ferrous metals	850	4.3
Total	19 690	100.0

B. Product buy-back commitments under compensation agreements

(Millions of dollars)

	1977	1978
Natural gas	600	1 320
Oil	-	-
Coal	-	400
Chemical products	-	660
Timber, pulp and paper	250	10
Ferrous metals	-	150
Non-ferrous metals	-	200
Total	850	2 740

C. Breakdown of compensation agreements by supplying countries

Country \ Sector	Natural gas	Oil	Coal	Chemical products	Timber, cellulose, pulp	Ferrous metals	Non-ferrous metals	Total
Germany, Fed. Rep.of	42.8	-	64	21.3	-	43.0	50	31.1
France	8.5	-	-	27.1	10.5	-	50	18.0
Italy	45.7	-	-	27.4	-	8.6	-	23.5
Japan	-	100	36	7.0	89.5	-	-	11.0
Other countries	3.0	-	-	17.2	-	48.4	-	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

D. Breakdown of compensation agreements by host countries (percentage)

USSR	100.0	100.0	36.0	77.1	100.0	80.1	70.6	80.0
Other countries of which:	-	-	64.0	22.9	-	19.9	29.4	10.0
Poland	-	-	64.0	8.7	-	-	29.4	9.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECE Secretariat.

STATISTICAL ANNEX

Explanatory Notes

Data on foreign direct investment

To facilitate comparison between countries, data assembled by the IMF and the OECD have been used for most of the analysis of foreign direct investment and related flows contained in the report. However, it should be recognized that some countries do not provide these organizations with the necessary information and that there are differences among reporting countries in the methodology used for data collection.

Data on foreign affiliates

UNCTC's Corporate Profile System contains, *inter alia*, information on the foreign affiliates of corporations. This information has been obtained primarily from a commercial source, but has been supplemented with specially commissioned collection efforts in groups of developing countries. The information relates to the reporting year 1980, the number of foreign affiliates identified is about 104,000, of which 27,500 are affiliates in developing countries. It is not possible to determine what proportion of total foreign affiliates is represented in the sample, although foreign holdings by Japan and South Africa and by home developing countries seem likely to be understated.

Two characteristics of these data should be noted. First, as they are collected mostly on the basis of individual parent transnational corporations, they are available on a regular basis and for each host country. Second, the data allow comprehensive comparisons of corporations from different home countries and of the home countries of foreign affiliates within developing countries, either individually or in selected groups.

Data on corporations

Data on the world's largest industrial transnational corporations were collected by UNCTC from annual reports and industry sources. Only parent companies with annual sales of over $2 billion in 1980 were included in the sample.

Annex Table II.1. Developed market economies: outflows of foreign direct investment by country, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	111.0	104.3	124.9	205.0	247.7	161.5	269.0	251.0	231.6	317.8	482.9
Austria	11.0	36.1	28.2	35.8	21.6	29.1	57.7	85.2	83.9	85.3	100.2
Belgium	156.0	180.5	177.0	268.2	478.7	235.5	352.1	463.5	557.1	1 335.9	204.3
Canada	300.0	241.7	405.0	764.2	829.8	896.0	869.4	1 506.1	2 485.2	2 372.1	2 994.8
Denmark	29.0	52.2	147.7	97.8	...	78.9	-63.5	161.1	32.6	...	...
Finland	52.0	46.1	60.8	15.5	28.9	25.5	30.0	72.4	62.6	125.3	130.2
France	373.0	397.2	595.0	934.6	781.7	1 578.4	1 648.7	1 113.8	2 024.5	2 029.7	3 023.5
Germany, Fed.Rep. of	873.0	1 045.1	1 563.4	1 669.0	1 924.2	2 015.5	2 459.1	2 230.0	3 618.3	4 638.3	4 529.3
Italy	110.0	400.2	215.0	259.9	200.8	346.0	160.5	551.1	169.0	542.6	-584.4
Japan	355.0	360.1	727.4	1 895.5	1 876.1	1 760.5	1 985.8	1 634.5	2 366.3	2 894.1	2 394.8
Netherlands	519.0	440.3	731.8	913.2	1 712.6	1 647.6	1 118.7	1 516.6	1 759.1	2 180.9	2 689.0
New Zealand	1.0	-1.0	8.7	-1.2	1.2	3.6	...	5.8	3.8	-12.9	-39.0
Norway	32.0	32.1	...	50.1	147.9	171.2	192.8	124.9	63.9	43.9	252.5
Portugal	...	...	6.5	44.1	37.3	8.5	5.8	2.3	6.3	-11.6	13.0
South Africa	17.0	29.1	19.5	50.1	114.3	121.4	32.3	67.7	259.2	9.0	...
Spain	43.0	25.1	36.9	52.5	85.4	91.1	54.3	140.1	131.5	220.9	311.1
Sweden	213.0	175.5	263.8	294.5	425.7	435.9	596.9	735.5	415.7	617.6	619.5
United Kingdom	1 310.0	1 645.9	1 833.8	3 957.9	3 686.1	2 599.5	3 870.0	3 288.9	5 245.9	5 914.8	6 106.8
United States	7 589.0	7 616.6	7 741.1	11 396.8	9 079.9	14 242.0	11 926.2	11 897.0	16 063.2	23 966.6	18 611.9
Total-listed countries	12 094.0	12 827.1	14 686.4	22 903.2	21 680.0	26 447.8	25 565.7	25 847.7	35 579.3	47 270.4	41 840.3

Source: International Monetary Fund, Balance of Payments Yearbook (Washington D.C.), various issues.

A minus sign (-) reflects a decrease in the country's stock of foreign direct investment abroad.

Annex Table II.2. Inflows of foreign direct investment by country and region, 1970-1980

(Millions of dollars)

Country and region	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Developed market economies											
Australia	898.0	1 148.4	1 042.3	138.3	1 334.9	433.5	1 054.1	1 150.0	1 658.9	1 678.3	2 124.1
Austria	95.0	79.2	77.1	107.3	172.0	99.6	107.4	124.9	157.8	192.5	239.5
Belgium	318.0	446.3	386.5	718.9	1 137.7	958.0	871.7	1 273.8	1 429.8	1 134.4	1 547.5
Canada	866.0	929.8	625.4	825.0	862.3	709.1	-191.7	1 030.9	1 184.4	1 608.5	622.1
Denmark	104.0	125.4	163.9	212.2	...	267.1	-190.5	75.9	88.9	103.4	...
Finland	18.0	25.1	36.9	13.1	34.9	68.0	58.9	47.9	33.8	27.1	28.6
France	622.0	525.6	687.3	1 126.6	1 853.3	1 555.3	1 062.2	2 021.0	2 919.7	2 537.5	3 249.9
Germany, Fed. Rep. of	595.0	1 131.4	1 932.6	2 026.6	2 140.7	692.1	1 073.7	840.6	1 540.0	1 111.1	1 119.3
Greece	50.0	42.1	55.4	62.0	67.3	24.3	10.4	24.5	17.5	19.4	74.2
Iceland	5.0	20.1	3.3	-1.2	13.2	42.5	4.6	4.7	7.5	2.6	23.4
Ireland	32.0	25.1	31.5	52.5	51.7	159.1	173.2	135.4	375.6	337.2	...
Italy	606.0	518.5	1 803.4	619.9	600.1	631.4	95.8	1 138.3	509.6	360.5	-744.5
Japan	94.0	209.6	162.9	-35.8	204.4	230.7	115.5	23.4	12.5	232.6	273.3
Netherlands	537.0	585.7	603.7	858.3	952.5	977.4	349.8	359.6	671.1	1 200.3	1 241.7
New Zealand	23.0	55.2	83.6	-32.2	166.0	193.0	179.0	168.1	12.5	33.6	37.7
Norway	64.0	94.3	120.5	208.6	346.4	214.9	372.9	765.9	485.8	399.2	58.6
Portugal	...	...	72.7	95.4	105.8	115.3	52.0	49.0	56.3	47.8	114.5
South Africa	335.0	259.8	117.3	27.4	692.7	184.6	18.5	-121.4	-127.7	-484.5	...
Spain	222.0	201.6	268.2	389.8	358.4	307.2	221.7	520.7	919.0	1 397.9	1 492.9
Sweden	108.0	83.2	67.3	72.7	75.8	80.1	4.6	80.6	71.4	112.4	251.2
United Kingdom	850.0	1 078.2	1 017.3	1 783.4	1 997.6	1 364.7	1 453.5	2 310.5	2 501.5	3 881.2	4 885.9
United States	1 464.0	366.1	955.4	2 801.5	4 762.5	2 634.7	4 341.0	3 712.7	7 900.1	11 860.6	10 854.8
Sub-Total	7 906.0	7 950.6	10 314.2	12 070.3	17 930.2	11 942.4	11 238.1	15 737.0	22 425.8	27 793.5	27 494.8
Developing countries											
Latin America	815.0	1 555.6	1 019.5	2 389.0	1 894.2	3 428.8	1 749.1	3 082.3	4 059.0	5 396.7	5 249.1
Africa	369.0	852.5	570.0	603.2	689.1	302.3	431.8	678.3	565.9	2 028.4	2 187.9
West Asia	142.0	-133.4	192.2	-468.5	-3 557.4	2 288.7	-1 086.4	1 056.6	855.1	-980.6	-3 097.6
South and East Asia	486.0	561.7	780.6	1 425.8	1 445.6	1 709.6	1 690.2	1 437.2	1 888.0	2 286.8	3 230.4
Europe	22.0	27.1	22.8	28.6	39.7	35.2	46.2	59.5	78.9	87.9	84.6
Sub-total	1 834.0	2 863.5	2 585.1	3 978.1	508.7	7 764.5	2 830.9	6 313.9	7 446.9	8 819.2	7 654.3
Total-listed countries	9 740.0	10 814.1	12 899.3	16 048.5	18 438.9	19 706.9	14 069.0	22 051.0	29 872.7	36 612.7	35 149.1

Source: International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.), various issues.

A minus sign (-) reflects a reduction in the stock of foreign direct investment in the country.

Annex Table II.3. Developed market economies: inflows of income from foreign direct investment by country, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	38.0	50.1	52.1	93.0	126.3	108.1	99.3	138.9	160.3	125.3	160.1
Canada	195.0	224.7	294.2	368.4	414.9	450.4	383.3	401.6	674.8	674.4	891.5
Denmark	20.0	23.1	30.4	46.5	45.7	65.6	76.2	103.9	95.2	...	...
Finland	...	...	...	...	...	3.6	2.3	2.3	7.5	6.5	5.2
France	84.0	73.2	78.2	115.6	131.1	188.2	179.0	183.3	200.3	227.4	456.8
Germany, Fed. Rep. of	79.0	82.2	65.1	178.8	120.3	242.8	242.4	326.9	338.0	516.8	546.6
Japan	87.0	115.3	173.7	226.5	348.8	509.9	635.0	840.6	776.2	930.2	1 340.6
Netherlands	514.0	661.0	687.3	959.7	1 241.1	1 083.0	1 203.0	1 242.2	1 458.6	2 040.1	2 596.6
New Zealand	...	...	...	...	...	...	...	...	...	...	23.4
Norway	19.0	18.1	10.9	19.1	20.4	21.9	19.6	22.2	16.3	24.5	31.2
Portugal	...	...	4.3	11.9	24.1	...	...	...	...	...	...
South Africa	110.0	131.4	139.0	248.0	168.4	176.1	226.3	164.6	242.9	295.9	277.2
Spain	1.0	1.0	...	...	1.2	...	3.5	3.5	2.5	6.5	5.2
Sweden	83.0	57.2	82.5	96.6	170.8	74.1	101.6	94.6	91.4	127.9	98.9
United Kingdom	932.0	946.8	1 112.9	1 491.4	1 494.9	1 577.2	1 660.2	1 745.4	2 080.8	2 494.9	3 136.7
United States	4 992.0	5 982.8	6 416.5	8 380.7	11 389.0	8 571.9	11 314.3	13 286.4	14 110.0	19 341.2	19 848.3
Total-listed countries	7 154.0	8 366.9	9 147.1	12 236.0	15 696.9	13 072.8	16 146.0	18 556.6	20 254.9	26 811.6	29 418.5

Source: International Monetary Fund, Balance of Payments Yearbook (Washington D.C.), various issues.

Annex Table II.4. Outflows of payments on foreign direct investment by country, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Developed market economies											
Australia	307.0	361.1	391.9	588.9	635.0	707.8	766.6	749.5	791.3	972.9	959.2
Canada	635.0	770.3	684.0	897.7	1 202.6	1 323.4	1 259.6	1 466.4	1 909.3	1 936.7	2 081.1
Denmark	27.0	30.1	44.5	60.8	57.7	114.1	92.4	126.1	189.1	...	...
Finland	7.0	14.0	20.6	20.3	21.6	34.0	50.8	43.2	40.1	63.3	69.0
France	20.0	29.1	44.5	68.0	99.8	114.1	105.1	123.8	202.8	164.1	184.8
Germany, Fed.Rep.of	771.0	929.8	912.0	1 299.4	1 791.9	1 396.3	1 512.4	2 556.9	1 652.6	2 596.9	2 577.0
Greece	3.0	5.0	6.5	14.3	12.0	12.1	...	...	...	...	...
Iceland	...	...	...	10.7	10.8	13.4	12.7	14.0	12.5	15.5	26.0
Japan	110.0	139.4	173.7	298.0	288.6	291.4	323.3	385.3	413.2	581.4	533.6
Netherlands	255.0	410.2	270.3	473.3	792.5	1 256.6	991.7	1 069.4	1 357.2	1 730.0	2 234.7
New Zealand	24.0	31.1	29.3	53.6	45.7	35.2	33.5	40.9	36.3	82.7	45.6
Norway	26.0	23.1	128.1	209.8	366.8	52.2	86.6	203.1	384.4	471.6	462.0
Portugal	...	...	29.3	31.0	33.7	...	...	...	...	...	...
South Africa	353.0	301.9	343.1	451.8	377.6	398.2	438.7	470.5	608.5	777.8	1 486.3
Spain	17.0	18.1	22.8	57.2	46.9	63.1	57.7	37.4	70.1	65.9	79.4
Sweden	32.0	41.1	42.3	63.2	299.5	65.6	68.1	119.1	77.6	67.2	106.7
United Kingdom	434.0	507.5	629.7	897.7	864.7	835.3	891.3	1 040.3	1 545.0	1 797.2	1 941.9
United States	441.0	620.8	694.9	703.4	264.6	1 056.3	1 431.6	1 260.9	1 615.1	2 403.1	3 175.7
Sub-total	3 462.0	4 232.6	4 467.7	6 199.1	7 212.2	7 769.3	8 122.0	9 706.8	10 904.9	13 726.2	15 963.3
Developing countries											
Latin America											
Argentina	73.0	48.1	60.8	79.9	46.9	20.6	35.8	160.0	162.8	249.4	260.3
Bahamas	...	...	...	...	...	...	...	...	...	...	...
Barbados	4.0	3.0	4.3	6.0	2.4	3.6	3.5	3.5	3.8	5.2	5.2
Bolivia	15.0	7.0	3.3	2.4	3.6	6.1	6.9	9.3	16.3	24.5	15.6
Brazil	111.0	93.3	110.7	131.1	173.2	236.8	383.3	458.8	565.9	741.6	544.0
Chile	104.0	30.1	25.0	...	8.4	8.5	4.6	24.5	35.1	41.3	85.9
Colombia	94.0	73.2	71.7	72.7	57.7	74.1	114.3	92.2	129.0	65.9	75.5
Costa Rica	8.0	6.0	13.0	14.3	8.4	19.4	13.9	5.8	6.3	5.2	15.6
Dominican Republic	19.0	...	13.0	21.5	25.3	26.7	33.5	...	...	...	...
Ecuador	12.0	15.0	18.5	107.3	178.0	20.6	38.1	32.7	45.1	130.5	139.3
El Salvador	2.0	2.0	3.3	4.8	18.0	19.4	4.6	12.8	13.8	31.0	...
Guatemala	17.0	13.0	18.5	21.5	31.3	30.4	55.4	2.3	2.5	18.1	13.0
Guyana	14.0	17.1	7.6	6.0	13.2	7.3	3.5	2.3	1.3	...	...
Haiti	2.0	3.0	2.2	2.4	4.8	8.5	8.1	9.3	11.3	9.0	10.4
Honduras	12.0	13.0	20.6	19.1	3.6	8.5	32.3	33.9	37.6	43.9	70.3

Annex Table II.4 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Jamaica	83.0	100.3	120.5	120.4	40.9	57.1	39.3	23.4	85.1	73.6	84.6
Mexico	358.0	248.7	314.9	388.6	476.2	491.7	326.7	170.5	214.1	333.3	498.5
Netherlands Antilles	2.0	2.0	18.5	66.8	34.9	115.3	26.6	81.7	130.2	193.8	...
Nicaragua	16.0	16.0	19.5	23.8	30.1	18.2	19.6	23.4	30.0	12.9	...
Panama	14.0	7.0	7.6	10.7	4.8	12.1	6.9	15.2	12.5	18.1	...
Paraguay	3.0	2.0	2.2	3.6	9.6	19.4	12.7	19.8	42.6	18.1	54.7
Peru	68.0	45.1	35.8	79.9	42.1	14.6	28.9	39.7	66.4	365.6	...
Suriname	39.0	44.1	45.6	38.1	28.9	19.4	41.6	43.2	40.1	53.0	40.3
Trinidad and Tobago	59.0	60.2	67.3	13.1	16.8	27.9	15.0	35.0	88.9	187.3	...
Uruguay	2.0	...	...	...	3.6	3.6	...	2.3	...	...	...
Venezuela	565.0	671.0	485.3	737.9	927.2	582.8	339.4	400.5	499.5	635.7	804.3
Sub-total	1 696.0	1 520.5	1 489.6	1 971.8	2 190.0	1 852.8	1 594.4	1 702.2	2 239.8	3 257.1	2 717.6
Africa											
Algeria	119.0	42.1	38.0	174.1	413.7	190.6	445.6	804.4	729.9	58.1	687.2
Benin	4.0	3.0	2.2	2.4	...	...	...	...	...	...	...
Botswana	...	...	...	...	...	38.9	39.3	49.0	56.3	69.8	101.5
Central African Republic	1.0	2.0	2.2	2.4	2.4	1.2	1.2	1.2	1.3	...	...
Chad	2.0	2.0	2.2	2.4	...	...	...	...	...	...	...
Congo	...	7.0	8.7	1.2	...	1.2	...	14.0	1.3	...	6.5
Egypt	...	...	...	2.4	3.6	4.9	2.3	...	...	...	...
Ethiopia	5.0	4.0	7.6	8.3	10.8	7.3	2.3	1.2	...	...	...
Gabon	8.0	9.0	17.4	32.2	95.0	123.8	133.9	100.4	86.4	118.9	...
Gambia	...	1.0	1.1	1.2	1.2	1.2	...	...	2.5	1.3	1.3
Ghana	4.0	5.0	2.2	2.4	7.2	4.9	8.1	9.3	5.0	3.9	11.7
Ivory Coast	20.0	22.1	25.0	42.9	52.9	47.4	56.6	81.7	110.2	94.3	...
Kenya	36.0	33.1	...	...	...	54.6	56.6	101.6	110.2	72.4	82.0
Libyan Arab Jamahiriya	564.0	571.7	237.8	426.8	199.6	210.0	205.5	276.7	358.1	426.4	...
Madagascar	3.0	5.0	5.4	8.3	19.2	14.6	10.4	2.3	3.8	6.5	...
Malawi	6.0	6.0	5.4	...	...	...	...	...	...	...	...
Mali	2.0	1.0	1.1	2.4	...	...	...	...	...	...	...
Mauritania	10.0	...	...	3.6	9.6	29.1	54.3	33.9	17.5	22.0	...
Mauritius	1.0	1.0	2.2	2.4	2.4	6.1	6.9	4.7	3.8	1.3	1.3
Morocco	12.0	16.0	20.6	31.0	26.5	34.0	27.7	33.9	48.8	50.4	44.3
Niger	2.0	2.0	...	...	...	...	...	...	...	...	...
Nigeria	385.0	475.4	609.1	937.0	610.9	627.7	579.6	783.4	480.8	205.4	875.9
Rwanda	...	...	...	...	...	...	1.2	1.2	1.3	1.3	1.3
Senegal	10.0	12.0	14.1	...	...	...	...	...	...	...	...
Seychelles	...	...	...	...	...	...	3.5	3.5	5.0	5.2	5.2
Sierra Leone	4.0	3.0	2.2	2.4	3.6	6.1	2.3	4.7	7.5	9.0	...
Somalia	...	...	...	...	...	1.2	1.2	...	...	...	...
Sudan	4.0	12.0	5.4	8.3	6.0	6.1	12.7	11.7	5.0	...	...
Swaziland	...	...	...	...	28.9	8.5	8.1	14.0	42.6	20.7	43.0
Togo	6.0	7.0	...	...	...	...	...	...	...	...	...
Tunisia	5.0	3.0	22.8	82.3	96.2	92.3	121.2	112.1	105.2	138.2	148.4

Annex Table II.4 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Uganda	8.0	9.0	6.5	4.8	7.2	2.4	5.8	5.8	3.8	3.9	6.5
United Rep. of Cameroon	4.0	6.0	8.7	7.2	12.0	21.9	16.2	37.4	30.0	18.1	...
United Rep. of Tanzania	...	...	...	...	...	...	18.5	23.4	8.8	...	...
Upper Volta	1.0	2.0	...	3.6	4.8	4.9	4.6	5.8	6.3	...	...
Zaire	30.0	25.1	...	...	...	...	...	...	...	...	...
Zambia	60.0	58.2	17.4	22.7	26.5	17.0	16.2	...	10.0	...	...
Sub-total	1 316.0	1 346.0	1 065.1	1 814.4	1 640.4	1 557.8	1 841.5	2 517.2	2 241.1	1 326.9	2 016.1
West Asia											
Democratic Yemen	28.0	...	...	13.1	8.4	...	...	...	...	...	...
Iraq	480.0	622.9	...	...	...	...	...	...	...	...	...
Israel	21.0	36.1	29.3	40.5	49.3	49.8	60.0	63.0	52.6	58.1	63.8
Jordan	1.0	1.0	1.1	1.2	...	...	...	...	...	...	...
Kuwait	...	...	...	...	...	58.3	20.8	7.0	...	...	...
Saudi Arabia	893.0	1 436.3	1 125.9	2 118.4	4 977.7	2 123.5	3 280.0	4 079.3	4 512.2	2 064.6	5 720.2
Turkey	34.0	36.1	47.8	62.0	75.8	41.3	84.3	26.9	16.3	...	31.2
Sub-total	1 457.0	2 132.3	1 204.1	2 235.2	5 111.2	2 272.9	3 445.1	4 176.2	4 581.1	2 122.8	5 815.2
South and east Asia											
Fiji	5.0	8.0	7.6	3.6	4.8	18.2	...	...	...	11.6	18.2
Indonesia	128.0	170.5	342.0	584.1	1 277.2	1 319.8	1 141.8	1 614.7	1 940.6	2 379.9	3 257.7
Iran	816.0	1 214.6	1 131.3	1 083.6	...	...	...	...	...	...	...
Malaysia	166.0	172.5	165.0	305.2	485.9	360.6	494.1	603.6	747.4	1 165.4	1 584.0
Papua New Guinea	...	...	...	...	...	...	35.8	32.7	45.1	74.9	130.2
Philippines	24.0	26.1	32.6	59.6	79.4	72.8	67.0	80.6	85.1	90.4	158.8
Sri Lanka	8.0	5.0	4.3	3.6	2.4	2.4	1.2	1.2	3.8	6.5	14.3
Republic of Korea	5.0	9.0	8.7	9.5	30.1	25.5	36.9	57.2	56.3	47.8	63.8
Thailand	19.0	18.1	17.4	15.5	20.4	34.0	31.2	31.5	26.3	36.2	37.7
Other Asia	35.0	23.1	25.0	...	...	...	...	...	...	...	...
Sub-total	1 206.0	1 646.9	1 733.8	2 064.7	1 900.2	1 833.3	1 808.0	2 421.5	2 904.7	3 812.7	5 264.7
Europe											
Cyprus	11.0	7.0	7.6	9.5	7.2	3.6	3.5	2.3	5.0	5.2	6.5
Malta	7.0	7.0	9.8	11.9	7.2	6.1	8.1	2.3	7.5	15.5	13.0
Sub-total-developing countries	5 693.0	6 659.8	5 510.0	8 107.7	10 856.2	7 526.5	8 700.5	10 821.7	11 979.1	10 540.1	15 833.1
Total-listed countries	9 155.0	10 892.4	9 977.7	14 306.8	18 068.5	15 295.9	16 822.5	20 528.5	22 884.1	24 266.3	31 796.4

Source: International Monetary Fund, Balance of Payments Yearbook (Washington D.C.), various issues.

Annex Table II.5. Rate of return on United States foreign direct investment 1974-1981

(Percentage)

Country group and sector	1974	1975	1976	1977	1978	1979	1980	1981
Developed countries	13.4	10.9	12.0	11.4	14.0	19.2	16.5	11.5
Petroleum	11.0	8.5	9.0	8.8	9.7	25.1	26.5	19.8
Manufacturing	14.0	10.6	12.5	11.8	15.1	18.4	12.4	8.2
Other	14.2	13.5	13.5	12.9	15.6	16.5	15.7	10.6
Developing countries	53.6	29.1	25.5	24.9	23.9	32.0	24.3	22.5
Petroleum	133.3	288.5	124.3	113.6	81.6	144.9	50.7	49.0
Manufacturing	13.9	13.9	11.5	11.6	15.2	14.3	16.3	12.5
Other	20.9	18.7	19.8	18.2	18.4	21.2	20.8	18.0
Total	23.0	14.2	14.6	14.0	15.8	21.9	18.4	14.4
Petroleum	46.7	20.1	18.8	18.8	17.5	38.7	30.4	26.4
Manufacturing	14.0	11.2	12.3	11.7	15.1	17.6	13.1	9.0
Other	15.9	14.6	14.0	14.0	15.8	18.0	17.4	13.0

Source: United States Department of Commerce, Survey of Current Business, various issues.

Annex Table II.6. Earnings from foreign direct investment reinvested by companies from selected developed market economies, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	20.0	28.1	63.0	122.8	93.8	60.7	100.4	106.2	147.7	187.3	197.8
France	172.0	104.3	102.1	209.8	103.4	75.3	71.6	22.2	11.3	14.2	44.3
Germany, Fed.Rep.of	188.0	252.8	293.1	321.9	445.0	449.2	519.5	...	701.1	762.3	767.9
Sweden	...	...	...	...	...	81.3	80.8	77.1	63.9	51.7	14.3
United Kingdom	773.0	801.4	1 160.6	2 049.3	1 990.4	1 945.1	2 613.8	2 255.6	2 413.9	3 487.1	3 214.8
United States	3 176.0	3 176.4	4 527.4	8 130.3	7 781.1	8 074.1	7 700.6	6 409.7	11 293.0	18 966.6	16 998.0

Source: International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.), various issues.

Annex Table II.7. Earnings from foreign direct investment reinvested in selected host countries, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	258.0	259.8	305.1	528.1	519.5	525.7	774.7	729.7	841.3	1 049.1	1 352.3
Finland	4.0	3.0	1.1	0.0	4.8	0.0	0.0	0.0	0.0	0.0	0.0
France	21.0	2.0	7.6	2.4	7.2	12.1	8.1	60.7	0.0	0.0	18.2
Germany, Fed. Rep. of	175.0	212.6	423.4	417.2	156.3	-157.8	11.5	-245.2	413.2	400.5	403.5
Portugal	0.0	0.0	0.0	0.0	0.0	13.4	25.4	12.8	5.0	11.6	15.6
Sweden	0.0	0.0	0.0	0.0	0.0	7.3	13.9	18.7	11.3	11.6	0.0
United Kingdom	430.0	443.3	758.9	838.1	591.7	552.4	977.9	1 458.2	1 384.7	2 763.6	2 078.5
United States	434.0	541.6	575.4	906.0	1 070.3	1 189.9	1 662.5	1 587.8	2 579.1	3 966.4	6 169.3

Source: International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.), various issues.

Annex Table II.8. United States: Flow of foreign direct investment by sector, 1970-72 and 1978-80

(Millions of dollars)

Sector	All countries 1970-1972	All countries 1979-1981	Developed countries 1970-1972	Developed countries 1979-1981	Developing countries 1970-1972	Developing countries 1979-1981
Primary industries	7 972	18 731	4 838	10 745	3 135	7 918
Manufacturing industries						
Chemicals and allied products		3 974		3 293		681
Machinery		3 170		2 662		508
Transportation equipment		1 252		803		449
Food and kindred products		2 779		1 699		1 080
Other manufacturing		7 224		4 849		2 376
Sub-total	9 951	18 400	8 458	13 306	1 493	5 094
Services	5 076	18 244	2 932	20 164	2 146	2 343
Of which: banking, finance and insurance		11 023		11 464		1 363
Other		4 145		2 426		355
Total	22 998	59 538	16 227	46 641	6 774	15 710

Note: Detail may not add to totals because of the omission of flows not allocated to specific countries.

Source: United States Department of Commerce, Survey of Current Business, various issues.

Annex Table II.9 United Kingdom foreign direct investment by sector, 1971 - 1978

(£ million)

Sector	1971 year-end stock Total	1971 year-end stock Developing	1978 year-end stock Total	1978 year-end stock Developing	Flow, 1971-1978 Total	Flow, 1971-1978 Developing
Manufacturing industries						
Food, drink and tobacco	1 104.2	264.1	3 328.7	791.0	2 224.5	526.9
Chemicals and allied industries	683.9	112.6	2 962.8	449.8	2 278.9	337.2
Metal manufacture	142.7	16.4	541.5	42.4	398.8	26.0
Mechanical and instrument engineering	263.4	27.1	701.8	67.2	438.4	40.1
Electrical engineering	498.0	80.7	1 201.2	142.1	703.2	61.4
Shipbuilding	67.4	23.5	90.2	12.1	22.8	-11.4
Motor vehicle manufacture	93.4	22.8	218.5	42.1	125.1	19.3
Textiles, leather, clothing, footwear	298.6	65.3	616.3	133.4	317.7	68.1
Paper printing and publishing	261.5	22.6	844.2	97.4	582.7	74.8
Rubber	134.1	40.8	302.9	236.2	168.8	195.4
Other manufacturing industries	454.6	111.9	1 339.7	248.7	885.1	136.8
Sub-total	4 001.8	787.8	12 147.9	2 262.4	8 146.0	1 474.6
Non-manufacturing industries						
Agriculture, forestry and fishing	441.5	335.0	369.3	267.8	-72.2	-67.2
Mining and quarrying	558.6	134.5	811.1	117.1	252.5	-17.4
Construction	88.6	32.7	380.0	125.3	291.4	92.6
Transport, communication, shipping	241.9	181.0	692.5	407.8	450.6	226.8
Distributive trades	876.4	303.5	3 168.4	879.7	2 292.0	576.2
Other financial institutions	99.1	-31.2	-145.9	-136.1	-245.0	-104.9
Property owning and managing	140.0	38.7	777.3	99.6	637.3	60.9
Other activities	219.0	77.5	1 014.3	131.4	795.3	53.9
Sub-total	2 665.1	1 071.7	7 067.0	1 892.6	4 401.9	820.9
Total	6 666.9	1 859.5	19 214.8	4 155.0	12 547.9	2 295.5

Sources: Her Majesty's Stationary Office, Trade and Industry, 15 November 1973 (London);

Her Majesty's Stationary Office, Business Monitor MA 4, 1978 Supplement (London).

Note: Data exclude oil, banking and insurance.

Annex Table II.10. Outflow of foreign direct investment from the Federal Republic of Germany, 1980

(DM million)

Sector	Developed	Developing a/	Other b/	Total
Mining	788	45	...	938
Manufacturing				
Chemicals	1 532	446	5	1 993
Iron and Steel	176	...	...	193
Mechanical engineering	539	-37	...	583
Vehicles	-5	871	-11	855
Electrical	536	262	-7	791
Sub-total	4 155	1 803	...	5 926
Distribution	3 351	195	...	3 548
Banking	659	...	...	932
Holding companies	841	105	0	946
Total	10 082	2 669	1 046	13 797

Source: Monthly Report of the Deutsche Bundesbank, Volume 34, No. 8, August 1982.

a/ Excludes OPEC countries.

b/ Comprises OPEC countries, centrally-planned economies and flows not classifiable by country.

Annex Table II.11. Japan: Outflow of foreign direct investment by region and sector, 1951-1980

(Millions of dollars)

A. Regional distribution

Region	Annual Average 1951-1966	1967-1977	1978-1980	Cumulative
Developed countries				
North America	21.8	475.5	1 466.3	9 978
Europe	1.7	277.1	465.3	4 471
Pacific	0.7	80.5	423.0	2 165
Sub-total	24.2	833.0	2 354.6	16 614
Developing countries				
Asia	13.5	555.6	1 167.3	9 830
Latin America	21.0	338.3	803.7	6 268
Middle East	13.8	114.5	260.0	2 259
Africa	0.9	81.6	177.3	1 445
Sub-total	49.2	1 090.0	2 408.3	19 802
Total	73.5	1 923.0	4 762.9	36 416

B. Sectoral distribution

Sector	Total	Developing countries	Developing countries' share (per cent)
Extractive			
Mining	7 071	4 720	66.8
Agriculture, fishing	910	545	59.9
Sub-total	7 981	5 265	66.0
Manufacturing			
Food	587	290	49.4
Textiles	1 637	1 313	80.2
Lumber, pulp	758	330	43.5
Chemicals	2 626	2 180	83.0
Iron, non-ferrous metals	2 619	1 839	66.4
Machinery	894	532	59.5
Electrical machinery	1 579	770	48.8
Transport	979	610	62.3
Other	894	648	72.5
Sub-total	12 573	8 412	66.9
Services			
Commerce	5 409	851	15.7
Finance, insurance	2 426	589	24.3
Other	8 108	4 484	55.3
Sub-total	15 943	5 924	37.2
Total	36 497	19 702	54.0

Source: Economic Planning Agency of Japan, Economic Survey of Japan, 1980/81.

Annex Table II.12. Flows of foreign direct investment from developed market economies to developing countries by major home country, 1970-1980

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Australia	106.2	48.0	101.7	104.0	117.1	48.3	74.7	84.3	68.1	112.8	136.4	...
Austria	4.6	-0.1	4.2	4.7	8.3	6.8	32.9	18.4	19.9	12.9	20.0	31.5
Belgium	45.7	28.5	57.7	48.3	49.5	68.8	235.8	69.5	137.8	253.8	198.2	123.1
Canada	64.2	76.0	176.0	125.0	193.0	300.0	430.0	390.0	558.0	-100.0	400.0	700.0
Denmark	8.4	24.7	9.5	16.1	26.3	30.4	30.0	...	76.5	65.6	79.3	66.0
Finland	0.8	0.8	0.7	0.1	0.3	2.6	.5	2.0	6.1	15.4	26.5	17.4
France	235.2	170.4	230.6	287.1	239.4	274.2	245.5	264.7	413.4	681.2	899.5	1 137.0
Germany, Fed.Rep.of	317.5	358.1	601.2	786.6	701.3	815.9	765.4	846.0	1 025.1	817.7	1 578.9	1 351.8
Italy	123.4	213.7	280.1	245.6	99.9	150.1	212.9	162.2	71.1	454.9	316.0	131.8
Japan	261.5	222.4	204.0	1 301.1	705.4	222.7	1 084.2	724.4	1 318.3	690.6	906.0	2 426.1
Netherlands	183.2	130.2	321.3	88.5	241.9	228.5	244.7	485.7	443.5	167.4	135.3	353.9
New Zealand	...	...	-1.9	0.9	3.3	0.8	0.6	9.3	10.5	7.1	23.5	15.4
Norway	18.9	10.6	6.8	14.4	14.9	16.8	42.7	15.7	30.2	7.8	9.0	8.2
Sweden	36.5	40.1	41.9	21.9	49.0	82.2	125.0	126.3	115.0	127.4	90.1	85.5
Switzerland	55.4	65.7	73.1	80.5	128.0	208.2	226.1	211.3	174.1	415.9	352.8	340.0
United Kingdom	340.6	233.2	390.7	698.8	718.7	796.5	986.3	1 178.2	820.0	1 028.7	1 231.0	1 216.8
United States	1 888.0	2 010.0	1 976.0	2 887.0	3 788.0	7 241.0	3 119.0	4 866.0	5 619.0	7 986.0	3 367.0	6 475.0
Total	3 690.1	3 632.3	4 473.6	6 710.6	7 084.3	10 493.8	7 856.3	9 454.0	10 906.6	12 745.2	9 769.5	14 479.5

Source: Organisation for Economic Co-operation and Development, Development Co-operation, (Paris), various issues.

Annex Table II.13. Developing countries - inflow and stock of foreign direct investment, 1970-1981

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Latin America												
Argentina												
Flow from OECD countries	89.8	125.7	71.7	100.3	17.9	54.3	242.8	213.1	310.0	666.8	935.5	583.1
Flow reported by host country	11.0	11.0	9.8	9.5	9.6	...	...	81.7	250.4	204.1	643.0	...
of which: reinvested earnings	...	...	...	...	...	...	...	59.5	118.9	195.1	300.7	...
Year-end stock	...	2 215 0	2 300.0	2 450.0	2 700.0	2 000.0	2 250.0	2 850.0	3 340.0	...	...	...
Bahamas												
Flow from OECD countries	80.3	54.7	90.4	102.3	143.4	23.1	331.1	151.5	539.8	295.5	471.5	295.5
Flow reported by host country	...	...	...	79.9	110.6	48.6	12.7	31.5	-1.3	10.3	3.9	...
Year-end stock	...	950.0	950.0	1 180.0	900.0	950.0	1 280.0	1 470.0	2 060.0	...	...	...
Barbados												
Flow from OECD countries	...	...	...	...	...	-20.1	8.6	...	3.8	11.8	4.0	0.1
Flow reported by host country	9.0	16.0	17.4	6.0	9.6	23.1	6.9	4.7	8.8	5.2	1.3	...
of which: reinvested earnings	...	1.0	2.2	1.2	3.6	4.9	1.2	1.2	2.5	1.3	1.3	...
Year-end stock	...	150.0	150.0	185.0	200.0	160.0	160.0	160.0	180.0	...	...	...
Belize												
Flow from OECD countries	7.1	3.3	...	...	...	...	...	...	...	-0.1	...	...
Year-end stock	...	50.0	50.0	55.0	60.0	70.0	70.0	70.0	75.0	...	...	...
Bolivia												
Flow from OECD countries	0.4	0.6	0.1	...	4.0	3.3	7.1	2.6	...	0.2	-0.7	0.1
Flow reported by host country	-76.0	2.0	-10.9	4.8	26.5	53.4	-8.1	-1.2	11.3	18.1	41.6	...
of which: reinvested earnings	2.0	2.0	3.3	3.6	...	-21.9	-8.1	-8.2	1.3	2.6	2.6	...
Year-end stock	...	70.0	75.0	85.0	100.0	100.0	110.0	130.0	140.0	...	...	...
Brazil												
Flow from OECD countries	326.5	398.3	641.8	1 261.7	1 408.9	1 457.3	1 483.8	1 072.3	1 738.2	1 532.5	886.9	1 156.5
Flow reported by host country	145.0	536.6	597.1	1 378.1	1 326.5	1 302.8	1 554.0	1 829.5	2 000.7	2 414.7	1 936.7	...
of which: reinvested earnings	...	321.0	200.9	399.4	381.2	297.5	409.9	873.3	975.3	718.4	411.3	...
Year-end stock	...	5 100.0	6 150.0	7 450.0	9 500.0	9 100.0	9 100.0	10 700.0	13 520.0	...	...	...
Chile												
Flow from OECD countries	12.3	-19.0	-99.2	-6.7	-134.8	-127.5	4.9	-43.1	25.9	138.7	91.9	309.3
Flow reported by host country	-79.0	-66.2	-1.1	-4.8	-556.8	49.8	-1.2	21.0	181.5	244.2	217.4	...
Year-end stock	...	820.0	765.0	500.0	700.0	400.0	410.0	1 215.0	1 440.0	...	...	...
Colombia												
Flow from OECD countries	10.9	70.4	-17.5	7.5	25.4	49.0	10.2	63.4	78.7	95.7	115.4	191.1
Flow reported by host country	43.0	43.1	18.5	23.8	40.9	40.1	25.4	64.2	105.2	127.9	243.4	...
Year-end stock	...	900.0	910.0	950.0	1 100.0	1 200.0	1 250.0	1 410.0	1 510.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Costa Rica												
Flow from OECD countries	2.0	...	0.3	2.0	2.9	0.2	1.3	2.2	5.0	7.9	24.4	5.9
Flow reported by host country	26.0	22.1	26.1	38.1	46.9	69.2	62.3	63.0	48.8	43.9	18.2	...
of which: reinvested earnings	-4.0	-2.0	7.6	7.2	6.0	4.9	12.7	12.8	21.3	11.6	7.8	...
Year-end stock	...	170.0	185.0	220.0	270.0	250.0	250.0	270.0	290.0	...	...	...
Dominica												
Flow from OECD countries	...	...	...	...	...	...	...	0.1	...	...	...	-0.2
Dominican Republic												
Flow from OECD countries	0.3	0.1	0.1	0.1	0.2	0.1	0.5	0.3	...	0.2	0.2	0.1
Flow reported by host country	72.0	65.2	43.4	34.6	54.1	64.3	60.0	45.5	40.1	-12.9	...	...
of which: reinvested earnings	...	...	16.3	27.4	32.5	51.0	53.1	...	...	...	...	...
Year-end stock	...	280.0	315.0	360.0	450.0	350.0	350.0	370.0	390.0	...	...	...
Ecuador												
Flow from OECD countries	1.5	-1.3	0.5	2.2	0.5	1.5	2.9	6.5	1.1	2.7	23.2	-42.4
Flow reported by host country	89.0	162.5	80.3	52.5	77.0	95.9	-19.6	35.0	48.8	65.9	80.7	...
of which: reinvested earnings	8.0	11.0	36.9	17.9	25.3	37.6	54.3	86.4	71.4	...	...	...
Year-end stock	...	300.0	350.0	400.0	800.0	500.0	530.0	580.0	660.0	...	...	...
El Salvador												
Flow from OECD countries	0.6	3.1	0.8	0.1	3.6	0.9	1.9	1.8	0.7	2.8	11.2	-9.9
Flow reported by host country	4.0	7.0	6.5	6.0	20.4	13.4	12.7	18.7	23.8	-10.3	...	...
of which: reinvested earnings	4.0	4.0	3.3	4.8	4.8	4.9	5.8	12.8	12.5	14.2	...	...
Year-end stock	...	97.0	100.0	110.0	120.0	130.0	130.0	140.0	150.0	...	...	...
Grenada												
Flow from OECD countries	...	...	...	...	...	...	...	...	0.1	...	...	...
Guatemala												
Flow from OECD countries	...	-0.3	1.6	1.7	3.9	8.0	2.5	0.7	1.9	3.4	1.6	88.6
Flow reported by host country	29.0	29.1	16.3	34.6	46.9	80.1	12.7	98.1	127.7	117.6	110.6	...
of which: reinvested earnings	13.0	16.0	13.0	15.5	15.6	20.6	5.8	31.5	33.8	27.1	31.2	...
Year-end stock	...	185.0	190.0	225.0	230.0	260.0	260.0	270.0	290.0	...	...	...
Guyana												
Flow from OECD countries	1.1	-2.4	-2.4	-2.1	1.4	0.1	4.7	...	...	2.0	-0.2	...
Flow reported by host country	9.0	-56.2	2.2	8.3	1.2	1.2	-26.6	-2.3	...	1.3	...	...
Year-end stock	...	135.0	135.0	140.0	170.0	180.0	190.0	210.0	230.0	...	...	...
Haiti												
Flow from OECD countries	...	...	...	...	0.3	0.1	1.2	0.8	1.2	2.4	0.9	0.7
Flow reported by host country	3.0	3.0	4.3	7.2	8.4	2.4	8.1	8.2	10.0	11.6	13.0	...
of which: reinvested earnings	1.0	1.0	1.1	1.2	2.4	...	...	...	...	...	...	...
Year-end stock	...	50.0	55.0	57.0	70.0	70.0	70.0	75.0	80.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Honduras												
Flow from OECD countries	...	0.7	0.3	0.3	0.7	0.7	6.0	0.9	3.8	2.7	-4.0	0.1
Flow reported by host country	8.0	7.0	3.3	7.2	-1.2	7.3	5.8	9.3	13.8	28.4	5.2	...
of which: reinvested earnings	8.0	7.0	1.1	7.2	-4.8	2.4	1.2	5.8	10.0	24.5	5.2	...
Year-end stock	...	200.0	200.0	215.0	250.0	230.0	240.0	250.0	270.0	...	...	...
Jamaica												
Flow from OECD countries	116.9	124.1	-0.6	0.1	-1.4	31.7	-77.5	6.2	-42.3	-24.0	3.1	...
Flow reported by host country	162.0	175.5	97.7	73.9	30.1	-2.4	-1.2	-7.0	-26.3	-25.8	-11.7	...
of which: reinvested earnings	22.0	7.0	3.3	6.0	7.2	3.6	8.1	8.2	8.8	10.3	28.6	...
Year-end stock	...	1 000.0	1 100.0	1 200.0	1 320.0	970.0	870.0	900.0	900.0	...	...	...
Mexico												
Flow from OECD countries	164.5	98.1	218.8	264.5	509.4	393.5	-161.9	343.9	494.8	1 046.9	2 017.3	1 137.7
Flow reported by host country	323.0	306.9	300.7	456.6	678.3	609.5	628.1	555.7	828.8	1 339.8	1 852.1	...
of which: reinvested earnings	122.0	110.3	120.5	191.9	317.5	348.5	339.4	230.0	465.7	594.3	786.1	...
Year-end stock	...	2 450.0	2 650.0	3 085.0	3 770.0	4 800.0	4 650.0	5 070.0	6 000.0	...	...	...
Netherlands Antilles												
Flow from OECD countries	0.8	-29.9	65.0	160.9	112.8	128.0	257.1	252.5	306.9	115.0	88.7	947.0
Flow reported by host country	...	...	48.9	48.9	146.7	-8.5	4.6	-3.5	15.0	271.3	...	...
of which: reinvested earnings	...	...	9.8	41.7	30.1	-82.6	31.2	-14.0	17.5	100.8	...	...
Year-end stock	...	600.0	800.0	1 100.0	1 400.0	1 400.0	1 610.0	2 000.0	2 500.0	...	...	...
Nicaragua												
Flow from OECD countries	...	0.6	0.2	0.2	0.7	...	0.8	0.2	-0.2	1.0	...	...
Flow reported by host country	15.0	13.0	9.8	13.1	14.4	10.9	12.7	10.5	7.5	2.6	...	...
of which: reinvested earnings	7.0	6.0	5.4	7.2	7.2	6.1	6.9	5.8	3.8	...	...	...
Year-end stock	...	85.0	85.0	95.0	110.0	90.0	90.0	90.0	90.0	...	...	...
Panama												
Flow from OECD countries	168.1	197.1	6.6	217.4	89.3	340.5	132.0	278.9	214.1	449.8	387.9	940.5
Flow reported by host country	33.0	22.1	13.0	35.8	34.9	7.3	-10.4	10.5	-1.3	40.1	...	...
of which: reinvested earnings	6.0	10.0	5.4	3.6	-14.4	-15.8	-4.6	5.8	3.8	5.2	...	...
Year-end stock	...	1 650.0	1 650.0	1 875.0	2 000.0	2 250.0	2 380.0	2 750.0	3 140.0	...	...	...
Paraguay												
Flow from OECD countries	0.9	1.5	-1.5	2.1	3.6	1.6	0.5	2.8	5.1	4.0	2.5	8.7
Flow reported by host country	4.0	7.0	3.3	9.5	20.4	24.3	21.9	22.2	25.0	50.4	31.2	...
of which: reinvested earnings	...	...	1.1	...	...	...	...	...	...	...	...	...
Year-end stock	...	43.0	45.0	55.0	70.0	70.0	80.0	100.0	110.0	...	...	...
Peru												
Flow from OECD countries	-14.0	-3.2	45.1	95.6	480.9	327.1	159.7	48.1	66.3	325.7	101.1	227.7
Flow reported by host country	-70.0	-58.2	23.9	70.3	57.7	315.7	169.7	53.7	25.0	69.8	...	...
of which: reinvested earnings	5.0	5.0	10.9	...	...	...	15.0	15.2	17.5	24.5	...	...
Year-end stock	...	820.0	880.0	990.0	1 300.0	1 700.0	1 800.0	1 930.0	2 150.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Suriname												
Flow from OECD countries	...	...	3.0	-0.3	7.5	1.2	1.1	6.4	1.0	0.8	-0.4	-0.2
Flow reported by host country	-5.0	-7.0	-2.2	14.3	...	...	...	-14.0	-10.0	-19.4	7.8	...
of which: reinvested earnings	-1.0	-2.0	-5.4	-3.6	-2.4	...	...	...	...	...	...	...
Year-end stock	...	120.0	120.0	130.0	150.0	330.0	340.0	380.0	420.0	...	...	...
Trinidad and Tobago												
Flow from OECD countries	7.0	2.8	5.9	-6.8	10.4	2.5	-0.1	5.2	10.9	3.5	54.1	-20.0
Flow reported by host country	83.0	103.3	86.9	65.6	120.3	202.8	107.4	84.1	129.0	94.3	...	...
of which: reinvested earnings	...	...	...	66.8	196.0	74.1	129.3	45.5	82.6	168.0	...	...
Year-end stock	...	1 000.0	1 100.0	1 140.0	1 300.0	1 200.0	1 200.0	1 260.0	1 300.0	...	...	...
Uruguay												
Flow from OECD countries	2.1	-0.8	-1.1	1.4	-0.1	24.6	3.3	4.1	2.1	3.4	6.5	11.7
Flow reported by host country	...	...	...	...	...	...	...	66.5	129.0	215.8	...	...
Year-end stock	...	80.0	80.0	90.0	100.0	250.0	260.0	290.0	330.0	...	...	...
Venezuela												
Flow from OECD countries	54.1	-36.7	-21.3	-109.9	-206.7	284.9	-359.0	287.6	187.4	133.7	113.9	281.3
Flow reported by host country	-23.0	210.6	-375.7	-84.6	-429.3	417.7	-889.0	-3.5	67.6	87.9	54.7	...
Year-end stock	...	3 700 0	3 700.0	3 600.0	3 030.0	4 000.0	2 900.0	3 300.0	3 620.0	...	...	...
Africa												
Algeria												
Flow from OECD countries	80.1	0.6	41.5	40.4	8.4	29.4	43.6	19.4	6.0	6.4	28.3	26.7
Flow reported by host country	47.0	150.4	19.5	51.3	358.4	119.0	187.0	178.6	135.2	89.1	348.8	...
Year-end stock	...	210.0	250.0	315.0	370.0	350.0	395.0	360.0	385.0	...	...	...
Angola												
Flow from OECD countries	2.4	1.9	2.2	7.5	6.7	-0.4	-1.2	...	1.9	2.0	37.4	49.1
Year-end stock	...	270.0	290.0	320.0	300.0	100.0	100.0	100.0	100.0	...	...	...
Benin												
Flow from OECD countries	...	...	...	1.7	-2.0	...	...	...	...	0.3	1.7	0.9
Flow reported by host country	7.0	3.0	4.3	3.6	...	...	...	...	...	...	...	...
of which: reinvested earnings	...	1.0	1.1	...	...	2.4	...	...	...	...	...	...
Year-end stock	...	22.0	25.0	30.0	35.0	30.0	30.0	33.0	34.0	...	...	...
Botswana												
Flow from OECD countries	...	...	...	...	0.1	0.3	3.2	0.3	3.6	2.0	...	0.2
Flow reported by host country	...	...	...	...	...	-38.9	11.5	12.8	41.3	127.9	122.3	...
of which: reinvested earnings	...	...	...	...	...	-51.0	-28.9	-39.7	-28.8	-25.8	-27.3	...
Year-end stock	...	10.0	35.0	40.0	45.0	45.0	50.0	55.0	57.0	...	...	...
Burundi												
Flow from OECD countries	0.1	...	0.4	0.4	0.2	0.3	-0.6	-0.2	0.9	-0.3	4.6	1.1
Year-end stock	...	17.0	18.0	20.0	20.0	22.0	22.0	25.0	26.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Central African Republic												
Flow from OECD countries	...	0.1	0.1	0.5	0.7	-0.1	-0.1	0.3	1.1	0.7	4.7	1.4
Flow reported by host country	1.0	1.0	1.1	...	6.0	6.1	3.5	-2.3	6.3	23.3	20.8	...
Year-end stock	...	45.0	50.0	55.0	60.0	60.0	60.0	65.0	70.0	...	...	...
Chad												
Flow from OECD countries	...	...	...	0.4	-0.1	0.8	0.3	...	0.7	...	...	0.6
Flow reported by host country	1.0	...	...	6.0	...	...	...	...	...	...	...	...
Year-end stock	...	20.0	20.0	22.0	25.0	25.0	25.0	25.0	26.0	...	...	...
Comoros												
Flow from OECD countries	...	...	...	...	...	...	...	...	1.9	...	...	...
Congo												
Flow from OECD countries	5.1	14.1	12.5	1.2	18.1	-9.5	2.4	0.2	...	0.4	-0.8	-4.9
Flow reported by host country	...	49.1	66.2	68.0	45.7	15.8	1.2	2.3	3.8	16.8	45.6	...
of which: reinvested earnings	...	...	...	...	...	...	...	...	...	...	6.5	...
Year-end stock	...	100.0	100.0	110.0	150.0	160.0	160.0	165.0	170.0	...	...	...
Djibouti												
Flow from OECD countries	...	...	...	0.4	...	0.2	...	...	...	0.2	0.2	...
Year-end stock	...	6.0	6.0	7.0	10.0	10.0	10.0	12.0	10.0	...	...	...
Egypt												
Flow from OECD countries	0.7	2.3	...	0.7	0.1	2.6	17.7	15.0	21.6	38.3	29.6	116.8
Flow reported by host country	...	...	...	...	...	8.5	61.2	105.1	318.0	1 215.8	547.9	...
Year-end stock	...	88.0	100.0	100.0	95.0	70.0	190.0	217.0	245.0	...	...	...
Equatorial Guinea												
Flow from OECD countries	...	...	...	...	...	...	...	...	...	...	...	-0.2
Year-end stock	...	...	...	...	...	20.0	20.0	20.0	20.0	...	...	...
Ethiopia												
Flow from OECD countries	0.9	1.1	0.4	3.7	0.5	-0.2	0.2	-1.2	...	...	1.0	0.1
Flow reported by host country	4.0	6.0	9.8	31.0	28.9	19.4	4.6	5.8	...	...	...	...
of which: reinvested earnings	2.0	3.0	5.4	8.3	10.8	4.9	4.6	4.7	...	...	...	...
Year-end stock	...	65.0	70.0	80.0	80.0	100.0	100.0	99.0	100.0	...	...	...
Gabon												
Flow from OECD countries	0.6	0.1	-0.1	10.9	12.6	47.2	6.8	25.6	9.1	20.2	24.6	27.0
Flow reported by host country	-1.0	16.0	17.4	15.5	79.4	167.6	39.3	35.0	56.3	55.6	...	...
of which: reinvested earnings	...	...	...	...	...	...	...	...	...	46.5	...	...
Year-end stock	...	350.0	375.0	425.0	350.0	620.0	700.0	740.0	780.0	...	...	...
Gambia												
Flow from OECD countries	0.2	0.2	0.2	0.2	1.7	...	0.5	-0.6	...	2.8	0.3	0.7
Flow reported by host country	...	2.0	2.2	1.2	1.2	...	1.2	...	2.5	11.6	...	...
Year-end stock	...	3.0	5.0	7.0	10.0	14.0	15.0	14.0	15.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Ghana												
Flow from OECD countries	6.7	-3.7	6.3	8.0	14.3	6.6	-3.3	-3.5	-2.6	0.7	3.4	12.9
Flow reported by host country	68.0	31.1	11.9	14.3	10.8	70.4	-18.5	19.8	10.0	-2.6	22.1	...
of which: reinvested earnings	8.0	12.0	9.8	13.1	7.2	17.0	12.7	2.3	3.8	...	...	...
Year-end stock	...	345.0	360.0	410.0	440.0	300.0	280.0	275.0	280.0	...	...	...
Guinea												
Flow from OECD countries	...	...	...	0.8	1.5	0.9	-0.7	-1.8	0.6	-0.5	0.6	-1.3
Year-end stock	...	150.0	175.0	180.0	190.0	200.0	200.0	198.0	200.0	...	...	...
Ivory Coast												
Flow from OECD countries	-2.6	-0.5	-1.0	4.4	1.2	5.5	29.7	7.8	5.5	9.2	12.1	22.4
Flow reported by host country	31.0	16.0	18.5	51.3	32.5	81.3	36.9	2.3	58.8	103.4	...	...
of which: reinvested earnings	10.0	19.1	17.4	34.6	18.0	51.0	36.9	31.5	58.8	46.5	...	...
Year-end stock	...	300.0	340.0	375.0	400.0	420.0	480.0	500.0	530.0	...	...	...
Kenya												
Flow from OECD countries	8.3	7.4	6.3	17.3	23.4	-1.4	20.5	41.0	57.0	56.4	24.1	2.1
Flow reported by host country	14.0	12.0	...	...	...	17.0	46.2	56.0	35.1	68.5	61.2	...
of which: reinvested earnings	14.0	12.0	...	...	...	19.4	42.7	40.9	41.3	59.4	50.8	...
Year-end stock	...	200.0	235.0	280.0	320.0	650.0	500.0	510.0	520.0	...	...	...
Lesotho												
Flow from OECD countries	...	...	...	...	...	...	...	0.4	...	...	...	...
Year-end stock	...	2.0	2.0	2.0	3.0	3.0	4.0	4.0	4.0	...	...	...
Liberia												
Flow from OECD countries	57.1	-34.0	20.7	74.8	57.7	180.4	83.2	170.5	144.7	41.2	71.9	288.0
Year-end stock	...	315.0	360.0	440.0	480.0	800.0	850.0	1 035.0	1 230.0	...	...	...
Libyan Arab Jamahiriya												
Flow from OECD countries	317.2	70.8	126.0	-201.3	6.2	-576.3	263.9	8.2	107.6	200.2	290.3	-69.2
Flow reported by host country	139.0	140.4	-2.2	-146.6	-239.3	-614.4	-519.5	-409.8	-557.1	-319.1	...	...
Year-end stock	...	1 400.0	1 560.0	1 365.0	750.0	630.0	490.0	530.0	660.0	...	...	...
Madagascar												
Flow from OECD countries	-0.2	1.1	2.3	0.4	6.8	1.6	-0.4	-5.5	0.6	-0.6	-0.8	-0.8
Flow reported by host country	20.0	11.0	11.9	10.7	14.4	3.6	2.3	-3.5	-3.8	-6.5	...	...
of which: reinvested earnings	10.0	13.0	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	90.0	95.0	140.0	160.0	180.0	180.0	180.0	190.0	...	...	...
Malawi												
Flow from OECD countries	2.7	2.9	8.2	4.0	6.7	21.0	5.3	24.7	-7.8	11.0	-11.8	0.1
Flow reported by host country	9.0	10.0	9.8	8.3	...	...	...	...	...	...	...	...
of which: reinvested earnings	2.0	2.0	5.4	4.8	...	...	...	...	...	...	...	...
Year-end stock	...	38.0	55.0	70.0	85.0	85.0	100.0	100.0	100.0	...	...	...
Mali												
Flow from OECD countries	...	...	...	...	-0.2	1.4	...	0.1	0.2	-1.3	-0.2	0.1
Flow reported by host country	...	-1.0	3.3	1.2	...	2.4	2.3	3.5	-1.3	...	...	...
Year-end stock	...	7.0	8.0	9.0	7.0	10.0	10.0	10.0	10.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Mauritania												
Flow from OECD countries	...	4.0	2.1	9.9	3.6	0.2	-28.9	.7	-6.0	-5.4	-3.2	-5.0
Flow reported by host country	1.0	...	...	9.5	2.4	-122.6	1.2	4.7	2.5	84.0	...	...
of which: reinvested earnings	...	...	...	3.6	-1.2	...	...	...	...	...	...	...
Year-end stock	...	145.0	150.0	170.0	190.0	55.0	25.0	25.0	25.0	...	...	...
Mauritius												
Flow from OECD countries	0.1	0.3	1.6	1.0	3.6	1.3	1.9	0.3	0.8	8.5	13.3	0.3
Flow reported by host country	2.0	1.0	...	-1.2	2.4	3.6	3.5	2.3	5.0	1.3	1.3	...
Year-end stock	...	...	...	...	...	22.0	23.0	23.0	24.0	...	...	...
Morocco												
Flow from OECD countries	4.8	4.2	6.8	5.5	-25.6	5.0	.5	8.4	15.4	6.8	19.4	16.9
Flow reported by host country	20.0	23.1	13.0	-1.2	-20.4	...	38.1	57.2	47.6	38.8	89.8	...
of which: reinvested earnings	8.0	4.0	3.3	9.5	7.2	4.9	9.2	8.2	11.3	7.8	3.9	...
Year-end stock	...	240.0	250.0	285.0	340.0	300.0	300.0	325.0	350.0	...	...	...
Mozambique												
Flow from OECD countries	0.3	...	5.5	4.0	2.0	...	-11.4	...	2.0	2.4	4.4	-0.6
Year-end stock	...	120.0	125.0	135.0	100.0	100.0	100.0	100.0	100.0	...	...	...
Niger												
Flow from OECD countries	2.7	...	0.1	0.2	1.5	10.6	31.4	3.5	19.9	8.8	-5.0	-1.2
Flow reported by host country	1.0	-5.0	...	...	...	...	...	...	...	...	...	...
of which: reinvested earnings	...	-5.0	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	25.0	35.0	35.0	20.0	35.0	70.0	80.0	100.0	...	...	...
Nigeria												
Flow from OECD countries	81.7	160.2	116.5	-185.7	-132.0	471.7	21.1	285.3	164.2	-48.8	206.2	291.6
Flow reported by host country	205.0	285.8	305.1	373.1	257.4	417.7	339.4	439.0	212.8	310.1	600.0	...
of which: reinvested earnings	53.0	81.2	61.9	31.0	91.4	131.1	131.6	74.7	...	...	...	...
Year-end stock	...	1 700.0	2 100.0	2 400.0	2 685.0	2 900.0	1 000.0	1 040.0	1 130.0	...	...	...
Rwanda												
Flow from OECD countries	0.1	1.1	-0.4	...	...	0.6	0.1	0.1	-0.7	0.4	0.2	3.1
Flow reported by host country	...	2.0	1.1	2.4	2.4	2.4	5.8	4.7	5.0	12.9	19.5	...
of which: reinvested earnings	...	...	...	2.4	2.4	2.4	3.5	5.8	8.8	7.8	7.8	...
Year-end stock	...	17.0	17.0	20.0	25.0	25.0	25.0	25.0	25.0	...	...	...
Senegal												
Flow from OECD countries	...	...	1.3	0.5	1.1	4.8	1.3	3.4	-4.5	3.9	1.9	5.2
Flow reported by host country	5.0	10.0	15.2	4.8	...	...	...	...	...	...	...	...
of which: reinvested earnings	5.0	6.0	10.9	20.3	...	...	...	...	...	...	...	...
Year-end stock	...	200.0	210.0	230.0	250.0	300.0	340.0	350.0	340.0	...	...	...
Seychelles												
Flow from OECD countries	2.2	1.8	1.4	5.8	1.7	4.3	2.8	.8	2.5	5.4	-0.6	-0.2
Flow reported by host country	...	...	...	...	...	...	6.9	5.8	5.0	6.5	7.8	...
of which: reinvested earnings	...	...	...	...	...	...	...	...	...	1.3	1.3	...
Year-end stock	...	...	...	...	...	...	10.0	11.0	12.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Sierra Leone												
Flow from OECD countries	-14.2	3.7	-2.3	6.2	...	3.6	0.5	6.8	3.8	6.0	-0.7	0.4
Flow reported by host country	8.0	5.0	4.3	3.6	10.8	9.7	8.1	4.7	18.8	11.6	...	...
of which: reinvested earnings	...	2.0	1.1	1.2	1.2	2.4	1.2	1.2	10.0	12.9	...	...
Year-end stock	...	70.0	75.0	80.0	90.0	75.0	80.0	80.0	82.0	...	...	...
Somalia												
Flow from OECD countries	0.1	1.0	2.1	-2.1	-1.0	11.8	1.3	56.6	-0.1	...	...	0.1
Flow reported by host country	5.0	2.0	4.3	1.2	1.2	7.3	2.3	8.2	...	...	...	...
Year-end stock	...	11.0	15.0	17.0	20.0	32.0	34.0	98.0	100.0	...	...	...
Sudan												
Flow from OECD countries	1.7	...	0.6	0.3	-1.2	1.3	5.9	8.3	6.0	-2.7	8.9	20.3
Flow reported by host country	...	-1.0	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	35.0	35.0	37.0	40.0	55.0	60.0	55.0	60.0	...	...	...
Swaziland												
Flow from OECD countries	...	...	0.7	0.1	...	...	2.0	5.2	0.3	5.3	9.0	0.4
Flow reported by host country	...	...	...	...	3.6	14.6	6.9	19.8	30.0	67.2	63.8	...
of which: reinvested earnings	...	...	...	...	4.8	10.9	4.6	2.3	11.3	11.6	37.7	...
Year-end stock	...	35.0	35.0	40.0	45.0	40.0	40.0	45.0	50.0	...	...	...
Togo												
Flow from OECD countries	...	0.3	0.2	0.1	-0.9	-3.2	0.7	0.7	0.1	-0.1	-1.4	1.0
Flow reported by host country	1.0	5.0	...	...	...	...	...	...	...	...	...	...
of which: reinvested earnings	...	1.0	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	62.0	65.0	70.0	100.0	90.0	90.0	95.0	100.0	...	...	...
Tunisia												
Flow from OECD countries	3.7	8.5	13.7	14.7	17.8	-7.3	-28.9	3.1	8.9	14.8	32.8	34.4
Flow reported by host country	16.0	23.1	32.6	58.4	27.7	44.9	109.7	93.4	91.4	49.1	234.3	...
Year-end stock	...	175.0	200.0	260.0	315.0	365.0	245.0	260.0	280.0	...	...	...
Uganda												
Flow from OECD countries	1.7	0.3	-0.9	-0.1	0.9	...	2.2	...	2.0	2.0	4.0	...
Flow reported by host country	4.0	-1.0	-11.9	4.8	1.2	2.4	1.2	1.2	1.3	1.3	2.6	...
of which: reinvested earnings	5.0	5.0	3.3	4.8	1.2	2.4	1.2	1.2	1.3	1.3	2.6	...
Year-end stock	...	55.0	30.0	19.0	5.0	7.0	7.0	7.0	10.0	...	...	...
United Rep. of Cameroon												
Flow from OECD countries	0.5	0.7	-0.2	6.0	2.6	2.4	4.0	-2.0	-1.8	7.7	69.2	90.8
Flow reported by host country	16.0	2.0	3.3	3.6	21.6	26.7	16.2	9.3	40.1	62.0	...	...
of which: reinvested earnings	...	...	...	7.2	16.8	17.0	17.3	...	32.6	22.0	...	...
Year-end stock	...	195.0	210.0	240.0	260.0	300.0	350.0	355.0	370.0	...	...	...
United Rep. of Tanzania												
Flow from OECD countries	3.1	5.2	7.7	6.0	-2.1	0.1	6.5	2.9	6.1	8.0	4.6	-0.1
Year-end stock	...	65.0	65.0	80.0	90.0	140.0	150.0	160.0	170.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Upper Volta												
Flow from OECD countries	0.0	0.0	0.0	0.2	-0.6	1.1	-0.1	-0.1	0.0	0.0	-0.2	...
Flow reported by host country	...	1.0	...	...	2.4	...	2.3	4.7	1.3	...	...	...
of which: reinvested earnings	1.0	...	...	...	1.2	2.4	2.3	2.3	2.5	...	...	...
Year-end stock	...	18.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	...	...	...
Zaire												
Flow from OECD countries	6.4	5.7	10.5	17.7	52.0	9.1	245.2	18.2	97.7	143.9	109.6	67.6
Flow reported by host country	42.0	52.2	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	561.0	620.0	640.0	720.0	850.0	1 100.0	1 110.0	1 250.0	...	...	...
Zambia												
Flow from OECD countries	9.5	8.4	21.7	16.8	14.3	32.5	26.7	43.0	25.9	40.8	36.8	58.8
Flow reported by host country	-297.0	...	29.3	28.6	38.5	37.6	31.2	17.5	...	...	...	...
of which: reinvested earnings	...	...	16.3	22.7	36.1	38.9	30.0	17.5	36.3	...	...	...
Year-end stock	...	300.0	300.0	300.0	100.0	200.0	300.0	315.0	330.0	...	...	...
Zimbabwe												
Flow from OECD countries	18.7	21.8	23.5	30.5	33.4	24.7	27.9	27.4	21.1	54.5	86.0	0.9
Year-end stock	...	315.0	315.0	330.0	350.0	300.0	350.0	350.0	400.0	...	...	...
West Asia												
Bahrain												
Flow from OECD countries	...	...	...	3.4	0.1	1.3	3.2	0.7	5.3	1.2	4.4	4.2
Year-end stock	...	140.0	170.0	195.0	250.0	250.0	200.0	200.0	210.0	...	...	...
Democratic Yemen												
Flow from OECD countries	12.6	-0.4	-0.2	-0.2	...	...	...	1.3	...	...	...	0.5
Year-end stock	...	...	1.0	1.0	...	...	...	...	...	...	...	...
Iraq												
Flow from OECD countries	-0.9	-0.2	-0.1	-6.6	-8.8	-44.9	1.2	4.4	.3	1.6	1.5	3.1
Flow reported by host country	24.0	-124.4	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	185.0	185.0	185.0	200.0	120.0	100.0	130.0	150.0	...	...	...
Israel												
Flow from OECD countries	2.7	12.1	26.8	50.0	11.9	9.1	6.0	3.7	-1.4	19.7	6.9	25.0
Flow reported by host country	40.0	57.2	114.0	149.0	80.6	44.9	47.3	80.6	38.8	11.6	-85.9	...
of which: reinvested earnings	5.0	6.0	7.6	16.7	18.0	8.5	8.1	8.2	10.0	9.0	9.1	...
Year-end stock	...	120.0	180.0	220.0	600.0	680.0	800.0	920.0	1 000.0	...	...	...
Jordan												
Flow from OECD countries	...	...	...	...	0.2	0.2	-0.1	0.6	3.9	2.8	-0.1	-0.1
Flow reported by host country	...	...	...	...	7.2	25.5	-8.1	11.7	56.3	25.8	33.8	...
Year-end stock	...	25.0	25.0	25.0	30.0	35.0	50.0	70.0	70.0	...	...	...
Kuwait												
Flow from OECD countries	26.0	...	...	0.3	0.1	0.3	-0.5	1.3	0.8	1.3	0.8	1.2
Flow reported by host country	...	...	...	...	...	200.3	-756.2	...	...	...	...	...
Year-end stock	...	650.0	725.0	800.0	620.0	650.0	100.0	160.0	180.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Lebanon												
Flow from OECD countries	...	-0.1	0.8	4.0	6.3	5.0	0.3	6.1	2.2	0.3	-12.2	0.7
Year-end stock	...	100.0	110.0	125.0	150.0	...	100.0	100.0	100.0	...	...	...
Oman												
Flow from OECD countries	3.0	-0.3	1.7	...	-0.9	-7.1	...	-2.8	2.4	0.2	6.4	-28.3
Year-end stock	...	80.0	110.0	120.0	150.0	100.0	50.0	50.0	50.0	...	...	...
Qatar												
Flow from OECD countries	5.7	27.3	...	1.3	13.0	9.1	.2	2.0	8.9	4.6	10.8	...
Year-end stock	...	100.0	100.0	110.0	130.0	160.0	50.0	100.0	150.0	...		...
Saudi Arabia												
Flow from OECD countries	7.4	8.2	4.4	1.3	6.0	31.9	47.4	17.1	54.3	88.2	35.5	34.9
Flow reported by host country	20.0	-111.3	34.7	-696.2	-3 733.0	1 864.9	-397.2	782.2	555.9	-1 351.4	-3 367.1	...
Year-end stock	...	890.0	1 050.0	1 100.0	400.0	650.0	100.0	215.0	250.0	...	...	...
Syrian Arab Republic												
Flow from OECD countries	-0.1	...	...	...	...	0.1	0.1	0.1	...	...	...	...
Flow reported by host country	...	...	...	...	...	...	...	...	...	...	...	...
Year-end stock	...	35.0	35.0	35.0	50.0	55.0	60.0	70.0	70.0	...	...	...
Turkey												
Flow from OECD countries	4.2	0.5	0.5	25.7	23.7	47.3	-2.9	-19.4	5.1	8.2	-14.5	6.2
Flow reported by host country	58.0	45.1	43.4	78.7	87.8	153.0	27.7	182.1	95.2	129.2	88.5	...
of which: reinvested earnings	...	...	...	...	...	...	...	115.6	47.6	42.6	52.1	...
Year-end stock	...	300.0	340.0	420.0	600.0	500.0	495.0	500.0	450.0	...	...	...
United Arab Emirates												
Flow from OECD countries	7.8	6.9	10.5	3.4	1.6	16.0	49.4	77.3	39.1	64.6	97.6	-16.9
Year-end stock	...	246.0	250.0	275.0	200.0	200.0	50.0	150.0	190.0	...	...	...
Yemen												
Flow from OECD countries	...	0.2	...	4.3	-0.5	-0.2	-0.6	-0.2	2.4	0.6	-1.3	13.8
Flow reported by host country	...	...	...	...	...	...	...	...	108.9	204.1	233.0	...
South Asia												
Afghanistan												
Flow from OECD countries	0.2	0.5	0.2	0.3	...	...	...	-0.2	...	1.2	9.0	0.2
Year-end stock	...	15.0	16.0	18.0	20.0	20.0	20.0	20.0	20.0	...	...	...
Bangladesh												
Flow from OECD countries	...	...	0.1	2.3	2.2	...	4.7	7.0	7.7	-8.0	8.5	0.4
Year-end stock	...	...	55.0	55.0	70.0	80.0	80.0	80.0	80.0	...	...	...
Bhutan												
Flow from OECD countries	...	...	...	...	0.4	...	...	...	...	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India												
Flow from OECD countries	45.5	47.7	17.8	37.9	57.0	85.3	50.0	-36.1	18.1	48.6	79.2	47.9
Flow reported by host country	6.0	-1.0	3.3	-13.1	-6.0	-10.9	-8.1	...	...	...	...	...
Year-end stock	...	1 650.0	1 660.0	1 780.0	2 000.0	2 400.0	2 500.0	2 450.0	2 500.0	...	...	...
Iran												
Flow from OECD countries	-66.9	19.5	7.7	-146.6	600.3	495.1	-102.4	345.7	909.1	164.4	80.9	24.2
Flow reported by host country	28.0	65.2	91.2	561.5	...	...	...	...	...	...	...	...
Year-end stock	...	930.0	1 000.0	1 150.0	200.0	1 200.0	500.0	1 000.0	1 000.0	...	...	...
Maldives												
Flow from OECD countries	...	...	...	-0.2	0.1	2.0	0.2	...	1.0	0.8	-0.1	...
Nepal												
Flow from OECD countries	...	...	...	...	0.3	...	...	...	0.4	0.3	0.3	-0.2
Year-end stock	...	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0	...	...	...
Pakistan												
Flow from OECD countries	3.6	-0.3	-1.3	-0.3	1.1	6.0	4.5	10.2	11.4	8.5	21.9	1.1
Flow reported by host country	23.0	1.0	17.4	-3.6	3.6	25.5	6.9	15.2	28.8	60.7	57.3	...
of which: reinvested earnings	6.0	3.0	3.3	...	1.2	1.2	1.2	3.5	2.5	7.8	6.5	...
Year-end stock	...	524.0	485.0	500.0	550.0	750.0	760.0	760.0	790.0	...	...	...
Sri Lanka												
Flow from OECD countries	-0.6	0.2	0.1	-0.2	6.8	-33.3	-18.8	5.5	2.8	6.6	10.9	5.4
Flow reported by host country	...	...	...	...	1.2	...	...	-1.2	1.3	46.5	43.0	...
Year-end stock	...	130.0	130.0	140.0	150.0	60.0	60.0	65.0	70.0	...	...	...
South and East Asia												
Burma												
Flow from OECD countries	...	0.1	0.3	...	1.0	3.3	...	0.1	...	...	0.4	...
Year-end stock	...	10.0	10.0	11.0	10.0	55.0	55.0	60.0	65.0	...	...	...
of which: reinvested earnings	...	...	...	...	-18.0	...	...	...	...	...	...	...
China												
Flow from OECD countries	...	...	...	...	...	...	...	...	...	0.1	23.5	25.0
Democratic Kampuchea												
Flow from OECD countries	0.1	-0.3	...	0.2	1.4	0.3	...	...	...	...	1.0	...
Year-end stock	...	84.0	85.0	90.0	...	...	...	...	...	...	...	...
Fiji												
Flow from OECD countries	...	...	1.7	1.5	7.5	-5.4	7.3	17.1	12.2	10.7	14.3	13.2
Flow reported by host country	6.0	7.0	8.7	15.5	14.4	14.6	...	...	...	10.3	33.8	...
of which: reinvested earnings	6.0	7.0	8.7	7.2	7.2	...	...	...	...	10.3	11.7	...
Year-end stock	...	...	...	...	...	160.0	170.0	200.0	220.0	...	...	...
Hong Kong												
Flow from OECD countries	26.3	31.4	58.3	143.2	81.0	214.7	154.3	144.5	252.0	342.1	373.9	952.9
Year-end stock	...	590.0	670.0	860.0	1 100.0	1 300.0	1 480.0	1 730.0	2 100.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Indonesia												
Flow from OECD countries	145.4	299.1	253.5	581.0	182.1	1 289.0	747.4	-67.4	417.7	-382.6	300.1	2 559.5
Flow reported by host country	83.0	139.4	207.4	15.5	-49.3	475.9	344.0	234.7	279.2	226.1	183.5	...
Year-end stock	...	900.0	1 200.0	1 700.0	2 100.0	3 500.0	5 100.0	5 160.0	5 760.0	...	...	...
Lao Peoples Dem.Rep.												
Flow from OECD countries	0.1	...	-0.1	0.9	0.4	0.2	...	0.6	...	...	...	...
Year-end stock	...	8.0	8.0	10.0	...	...	...	...	...	...	...	...
Malaysia												
Flow from OECD countries	37.5	32.1	64.6	139.2	122.6	72.5	133.1	134.0	-5.3	77.2	241.5	257.9
Flow reported by host country	94.0	100.3	114.0	171.7	571.3	349.7	381.0	406.3	467.0	668.0	928.0	...
Year-end stock	...	880.0	1 000.0	1 150.0	1 350.0	2 300.0	2 400.0	2 700.0	2 880.0	...	...	...
Nauru												
Flow from OECD countries	...	...	...	...	...	0.1	...	...	...	...	...	...
New Caledonia												
Flow from OECD countries	...	...	...	9.6	...	0.4	...	...	...	...	2.0	...
Year-end stock	...	85.0	85.0	100.0	120.0	130.0	130.0	140.0	145.0	...	...	...
Papua New Guinea												
Flow from OECD countries	129.7	47.5	85.9	111.9	72.7	-2.2	49.0	23.4	33.0	19.3	40.4	-36.9
Flow reported by host country	...	...	...	...	...	...	20.8	19.8	38.8	43.9	75.5	...
of which: reinvested earnings	...	...	...	...	...	...	21.9	28.0	40.1	53.0	65.1	...
Year-end stock	...	360.0	435.0	550.0	640.0	700.0	750.0	800.0	860.0	...	...	...
Philippines												
Flow from OECD countries	-1.0	21.6	4.1	59.3	130.7	116.7	153.6	116.2	143.9	329.7	127.7	106.5
Flow reported by host country	-25.0	-1.0	-11.9	54.8	3.6	98.3	131.6	226.5	192.8	200.3	261.6	...
of which: reinvested earnings	...	...	...	...	...	...	67.0	78.2	61.3	46.5	39.0	...
Year-end stock	...	830.0	870.0	920.0	1 100.0	1 220.0	1 400.0	1 620.0	1 820.0	...	...	...
Republic of Korea												
Flow from OECD countries	14.1	32.1	66.6	260.7	81.5	51.4	83.2	27.8	183.6	1.2	-270.6	259.6
Flow reported by host country	73.0	42.1	64.1	95.4	119.1	57.1	80.8	93.4	88.9	36.2	7.8	...
Year-end stock	...	250.0	360.0	650.0	850.0	950.0	1 150.0	1 280.0	1 500.0	...	...	...
Singapore												
Flow from OECD countries	16.1	22.5	45.6	104.7	91.8	70.5	67.1	85.5	147.2	354.5	650.0	877.5
Flow reported by host country	93.0	116.3	191.1	388.6	596.5	610.7	651.1	335.1	738.7	940.6	1 453.8	...
Year-end stock	...	360.0	485.0	600.0	750.0	1 700.0	1 330.0	1 500.0	1 700.0	...	...	...
Solomon Islands												
Flow from OECD countries	...	-0.2	...	0.7	-0.1	2.8	0.1	...	0.6	0.3	-0.1	...
Thailand												
Flow from OECD countries	13.7	7.9	20.7	19.8	44.1	18.6	18.3	42.4	38.4	38.1	217.9	217.3
Flow reported by host country	43.0	39.1	68.4	77.5	188.8	86.2	79.7	106.2	51.3	51.7	186.1	...
Year-end stock	...	410.0	490.0	530.0	550.0	330.0	350.0	400.0	445.0	...	...	...

Annex Table II.13 (continued)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Tonga												
Flow from OECD countries	...	...	...	...	...	...	...	...	0.1	...	...	...
Flow reported by host country	...	...	...	...	...	2.4	2.3	1.2	1.3	2.6	...	...
of which: reinvested earnings	...	...	...	...	...	2.4	2.3	1.2	1.3	2.6	...	...
Vanuatu												
Flow from OECD countries	...	...	...	2.8	1.8	3.3	10.1	...	4.9	4.9	2.7	4.1
Year-end stock	...	...	...	...	...	...	30.0	35.0	40.0	...	...	...
Viet Nam												
Flow from OECD countries	0.1	1.8	-0.9	1.0	1.3	4.1	-0.3	...	...	-0.1	...	17.9
Year-end stock	...	160.0	180.0	180.0	50.0	...	...	...	...	...	...	...
Europe												
Cyprus												
Flow from OECD countries	-1.1	3.6	-3.4	3.7	-11.0	3.9	-2.4	3.9	-1.0	6.3	-0.6	17.2
Flow reported by host country	10.0	15.0	18.5	23.8	28.9	19.4	32.3	40.9	57.6	71.1	84.6	...
of which: reinvested earnings	...	...	...	...	...	1.2	3.5	3.5	1.3	...	1.3	...
Year-end stock	...	28.0	30.0	65.0	85.0	88.0	86.0	85.0	90.0	...	...	...
Malta												
Flow from OECD countries	2.0	1.2	-0.5	1.0	11.7	2.2	19.4	1.9	19.4	15.4	24.0	44.6
Flow reported by host country	12.0	12.0	4.3	4.8	10.8	15.8	13.9	18.7	21.3	16.8	...	...
of which: reinvested earnings	...	...	...	...	6.0	4.9	4.6	12.8	12.5	9.0	13.0	...
Year-end stock	...	45.0	50.0	55.0	80.0	85.0	100.0	103.0	120.0	...	...	...
Yugoslavia												
Flow from OECD countries	1.1	11.7	7.6	10.0	11.2	7.9	11.7	13.8	14.3	28.3	23.6	12.6
Year-end stock	...	65.0	60.0	70.0	90.0	100.0	112.0	140.0	170.0	...	...	...
Total developing countries												
Flow from OECD countries	3 224.3	2 770.8	3 319.0	4 170.8	1 591.9	10 344.2	7 613.6	9 361.8	10 308.6	11 679.2	7 732.2	...
Flow reported by host country	1 834.0	2 863.5	2 585.1	3 978.1	508.7	7 764.5	2 830.9	6 313.9	7 446.9	8 819.2	7 654.3	...
Year-end stock	...	45 299.0	48 496.0	54 538.0	61 025.0	70 263.0	70 133.0	78 454.0	89 090.0	...	...	...

Sources: Flow from OECD countries: Organisation for Economic Co-operation and Development, Geographical Distribution of Financial Flows to Developing Countries, (Paris), various issues.

Flow reported by host country: International Monetary Fund, Balance of Payments Yearbook, (Washington, D.C.), various issues.

Year-end stock: Organisation for Economic Co-operation and Development, Development Co-operation, Annual Review, (Paris), various issues.

Annex Table II.14 Importance of foreign direct investment to individual developing countries, 1978-1980

(Millions of dollars)

Country	GNP per capita, 1979 ($) (1)	Gross national product, 1979 (2)	Stock of foreign direct investment end-1978 (3)	Domestic investment (4)	Flows from OECD countries: Foreign direct investment (5)	Flows from OECD countries: Bank loans (6)	Flows from OECD countries: All resources (7)	Foreign direct investment as % of total flow of resources (5)/(7)	Bank loans as % of total flow of resources (6)/(7)	Foreign direct investment as percentage of GNP (5)/(2)	Foreign direct investment as percentage of domestic investment (5)/(4)
				Annual average, 1978-1980							
Latin America											
Antigua	1 150	90	...	...	0.6	...	5	12.3	...	.70	...
Argentina	2 210	60 310	3 340	21 069	637.4	2 214.7	1 969	32.4	112.5	1.06	3.0
Bahamas	2 770	650	2 060	...	435.6	15.7	476	91.5	3.3	67.02	...
Barbados	2 680	660	180	155.7	6.5	...	27	24.6	...	.99	4.2
Belize	980	140	75	...	...	...	19	-0.2	...	-0.02	...
Bolivia	550	2 960	140	1 101.0	-0.2	63.7	273	-0.1	23.3	-0.01	...
Brazil	1 770	206 600	13 520	66 202	1 385.9	3 018.3	4 775	29.0	63.2	.67	2.1
Chile	1 890	20 660	1 440	3 237.3	85.5	1 087.3	273	31.4	399.0	.41	2.6
Colombia	1 060	27 790	1 510	6 539.3	96.6	217.7	557	17.4	39.1	.35	1.5
Costa Rica	1 630	3 530	290	1 022.7	12.4	76.3	125	10.0	61.2	.35	1.2
Cuba	1 410	8 550	...	...	...	22.3	95	...	23.6	-	...
Dominican Rep.	1 030	5 410	390	1 333.7	0.1	27.7	106	0.1	26.0	-	...
Ecuador	1 110	8 980	660	2 462.0	9.0	379.7	412	2.2	92.2	.10	0.4
El Salvador	640	2 800	150	658.7	4.9	5.7	105	4.7	5.4	.17	0.7
Grenada	650	70	...	...	...	...	3	1.1	...	.05	...
Guatemala	1 010	6 890	290	1 282.0	2.3	14.3	147	1.6	9.7	.03	0.2
Guyana	630	500	230	133.7	0.6	5.0	48	1.3	10.5	.12	0.4
Haiti	230	1 150	80	227.0	1.5	3.0	115	1.3	2.6	.13	0.7
Honduras	520	1 870	270	600.0	0.8	20.7	156	0.5	13.3	.04	0.1
Jamaica	1 110	2 400	900	422.0	-21.1	28.7	141	-14.9	20.3	-0.88	-5.0
Mexico	1 880	122 920	6 000	36 129	1 186.3	3 231.3	3 442	34.5	93.9	.97	3.3
Nicaragua	610	1 570	90	193.3	0.3	6.7	139	0.2	4.8	.02	.1
Panama	1 550	2 770	3 140	797.3	350.6	1.3	668	52.5	0.2	12.66	44.0
Paraguay	1 140	3 400	110	983.7	3.9	42.7	79	4.9	54.3	.11	.4
Peru	850	14 520	2 150	2 227.3	164.4	-76.0	624	26.4	-12.2	1.13	7.4
St. Vincent and the Grenadines	480	50	...	...	...	...	7	...	...	-	...
Suriname	2 480	910	420	214.7	0.5	...	80	0.6	...	.05	0.2
Trinidad and Tobago	3 910	4 500	1 300	1 251.7	22.8	77.7	82	27.8	94.4	.51	1.8
Uruguay	2 500	7 250	330	1 313.7	4.0	46.0	52	7.6	87.9	.06	0.3
Venezuela	3 440	49 680	3 620	15 881	145.0	0.0	1 087	13.3	0.0	0.29	0.9

Annex Table II.14 (continued)

Country	GNP per capita, 1979 ($) (1)	Gross national product, 1979 (2)	Stock of foreign direct investment end-1978 (3)	Domestic investment (4)	Flows from OECD countries: Foreign direct investment (5)	Flows from OECD countries: Bank loans (6)	Flows from OECD countries: All resources (7)	Foreign direct investment as % of total flow of resources (5)/(7)	Bank loans as % of total flow of resources (6)/(7)	Foreign direct investment as percentage of GNP (5)/(2)	Foreign direct investment as percentage of domestic investment (5)/(4)
				Annual average, 1978-1980							
Africa											
Algeria	1 770	32 360	385	17 278	13.6	850.7	2 308	.6	36.9	.04	0.1
Angola	430	2 970	100	280.0	13.8	-1.3	117	11.8	-1.1	.46	4.9
Benin	270	940	34	205.7	0.7	2.7	186	0.4	1.4	.07	0.3
Botswana	780	610	57	372.7	1.9	-3.0	72	2.6	-4.2	.31	0.5
Burundi	190	760	26	104.0	1.7	1.7	96	1.8	1.7	.23	1.7
Cape Verde	260	80	...	16.0	...	...	44	...	...	-	...
Central African Republic	280	620	70	104.3	2.2	-6.3	93	2.3	-6.8	.35	2.1
Chad	120	500	26	124.7	0.2	-0.3	82	0.3	-0.4	.05	0.2
Comoros	260	90	...	27.7	0.6	...	25	2.6	...	.70	2.3
Congo	670	1 010	170	234.7	-0.1	-0.3	84	-0.2	-0.4	-0.01	-0.1
Djibouti	460	150	10	...	0.1	...	88	0.2	...	.09	...
Egypt	500	19 570	245	7 065.3	29.8	27.7	2 391	1.2	1.2	.15	0.4
Equatorial Guinea	390	130	20	5.7	...	...	4	...	...	-	...
Ethiopia	120	3 810	100	399.3	0.3	3.3	187	0.2	1.8	.01	0.1
Gabon	3 420	2 210	780	996.0	18.0	7.0	6	313.4	122.1	.81	1.8
Gambia	220	130	15	104.7	1.0	2.3	54	1.9	4.3	.79	1.0
Ghana	400	4 470	280	1 274.3	0.5	1.3	202	0.2	.7	.01	...
Guinea	270	1 430	200	226.3	0.2	...	110	0.2	...	.02	0.1
Guinea-Bissau	170	130	...	20.0	...	...	59	...	...	-	...
Ivory Coast	1 070	8 810	530	3 032.0	8.9	141.0	696	1.3	20.3	.10	0.3
Kenya	390	5 940	520	1 479.0	45.8	142.0	549	8.3	25.9	.77	3.1
Lesotho	370	480	4	95.3	...	...	68	...	...	-	...
Liberia	520	940	1 230	362.7	85.9	93.7	493	17.4	19.0	9.14	23.7
Libyan Arab Jamahiriya	8 480	24 280	660	6 167.0	199.4	...	910	21.9	...	.82	3.2
Madagascar	330	2 760	190	627.3	-0.3	11.7	245	-0.1	4.8	-0.01	...
Malawi	220	1 260	100	373.3	-2.9	31.3	170	-1.7	18.4	-0.23	-0.8
Mali	180	1 240	10	180.7	-0.4	...	213	-0.2	...	-0.03	-0.2
Mauritania	300	480	25	187.0	-4.9	-2.7	175	-2.8	-1.5	-1.01	-2.6
Mauritius	1 080	1 010	24	357.3	7.5	...	59	12.8	...	.75	2.1
Morocco	780	15 250	350	3 768.3	13.9	182.3	1 103	1.3	16.5	.09	0.4

Annex Table II.14 (continued)

Country	GNP per capita, 1979 ($) (1)	Gross national product, 1979 (2)	Stock of foreign direct investment end-1978 (3)	Flows from OECD countries: Domestic investment (4)	Foreign direct investment (5)	Bank loans (6)	All resources (7)	Foreign direct investment (5)/(7)	Bank loans (6)/(7)	Foreign direct investment as percentage of GNP (5)/(2)	Foreign direct investment as percentage of domestic investment (5)/(4)
				Annual average, 1978-1980				As % of total flow of resources			
Mozambique	250	2 550	100	247.0	2.9	.7	201	1.5	0.3	.12	1.2
Niger	300	1 530	100	230.3	7.9	29.7	246	3.2	12.0	.52	3.4
Nigeria	910	75 130	1 130	23 394	107.2	623.0	808	13.3	77.1	.14	0.5
Rwanda	190	930	25	183.0	...	1.0	143	...	0.7	-	...
Senegal	450	2 510	340	443.3	0.4	-4.3	366	0.1	-1.2	.02	0.1
Seychelles	1 580	100	12	...	2.4	...	27	9.1	...	2.43	...
Sierra Leone	250	860	82	161.7	3.0	.3	68	4.5	.5	.35	1.9
Somalia	140	600	100	253.7	...	-2.0	336	...	-0.6	-0.01	...
Sudan	450	8 060	60	1 617.7	4.1	10.0	641	.6	1.6	.05	0.3
Swaziland	650	350	50	187.3	4.9	6.0	68	7.2	8.9	1.39	2.6
Togo	400	970	100	489.0	-0.5	24.7	220	-0.2	11.2	-0.05	-0.1
Tunisia	1 160	7 200	280	2 166.3	18.8	85.3	430	4.4	19.9	.26	0.9
Uganda	290	3 710	10	617.3	2.7	2.7	17	15.2	15.2	.07	0.4
United Rep. of Cameroon	590	4 890	370	1 328.0	25.0	10.7	557	4.5	1.9	.51	1.9
United Rep. of Tanzania	250	4 430	170	1 006.3	6.2	25.7	700	.9	3.7	.14	0.6
Upper Volta	180	1 000	20	262.0	-0.1	-1.3	201	...	-0.7	-0.01	...
Zaire	210	5 750	1 250	1 253.3	117.1	2.7	738	15.9	0.4	2.04	9.3
Zambia	540	3 000	330	658.7	34.5	-5.3	361	9.6	-1.5	1.15	5.2
Zimbabwe	550	3 940	400	627.3	53.9	1.3	84	64.2	1.6	1.37	8.6
West Asia											
Bahrain	5 150	2 030	210	...	3.6	...	153	2.4	...	.18	...
Democratic Yemen	370	690	...	...	0.2	...	138	0.1	...	.02	...
Iraq	2 710	34 180	150	10 758	1.1	-26.0	172	0.7	-15.1	-	...
Israel	4 230	15 980	1 000	...	8.4	101.3	1 451	0.6	7.0	.05	...
Jordan	1 200	2 680	70	904.0	2.2	20.7	1 167	0.2	1.8	.08	0.2
Kuwait	20 520	26 250	180	3 220.3	1.0	...	81	1.2	...	-	...
Lebanon	1 740	5 370	100	...	-3.6	-3.0	275	-1.3	-1.1	-0.07	...
Oman	3 530	3 060	50	...	3.0	...	176	1.7	...	.10	...
Qatar	20 020	4 500	150	...	8.1	...	76	10.6	...	.18	...
Saudi Arabia	9 960	85 690	250	24 791	59.3	...	327	18.2	...	.07	0.2

Annex Table II.14 (continued)

Country	GNP per capita, 1979 ($) (1)	Gross national product, 1979 (2)	Stock of foreign direct investment end-1978 (3)	Flows from OECD countries: Domestic investment (4)	Foreign direct investment (5)	Bank loans (6)	All resources (7)	Foreign direct investment (5)/(7)	Bank loans (6)/(7)	Foreign direct investment as percentage of GNP (5)/(2)	Foreign direct investment as percentage of domestic investment (5)/(4)
				Annual average, 1978-1980				As % of total flow of resources			
Syrian Arab Republic	1 170	10 070	70	2 700.3	...	-3.7	1 297	...	-0.3	-	...
Turkey	1 380	61 020	450	12 700	-0.4	473.3	1 695	...	27.9	-	...
United Arab Emirates	23 410	19 500	190	...	67.1	...	341	19.7	...	.34	...
Yemen	420	2 420	...	...	0.6	5.3	378	0.2	1.4	.02	...
South Asia											
Afghanistan	170	4 600	20	443.7	3.4	0.3	86	3.9	0.4	.07	0.8
Bangladesh	110	9 910	80	1 725.0	2.7	-0.3	1 149	0.2	...	.03	0.2
Bhutan	80	100	...	...	...	...	6	...	...	-	...
India	210	135 790	2 500	31 638	48.6	10.7	1 698	2.9	0.6	.04	0.2
Iran	2 030	8 243	1 000	13 736	384.8	160.0	1 138	33.8	14.1	4.67	2.8
Maldives	220	30	...	...	0.6	...	13	4.5	...	1.89	...
Nepal	130	1 840	10	238.0	0.3	...	127	0.3	...	.02	0.1
Pakistan	270	21 170	790	4 076.7	13.9	42.7	911	1.5	4.7	.07	0.3
Sri Lanka	230	3 310	70	967.0	6.8	6.0	371	1.8	1.6	.20	0.7
South-east Asia and Oceania											
Burma	150	5 020	65	855.7	0.1	20.3	426	...	4.8	-	...
Democratic Kampuchea	80	660	...	...	0.3	...	130	0.3	...	.05	...
Fiji	1 650	1 020	220	...	12.4	9.7	61	20.5	15.9	1.22	...
Indonesia	370	52 930	5 760	12 231	111.7	56.3	1 212	9.2	4.6	.21	0.9
Malaysia	1 450	19 030	2 880	5 186.0	104.5	113.7	515	20.3	22.1	.55	2.0
Nauru	4 540	30	...	...	...	...	2	...	...	-	...
Papua New Guinea	760	2 230	860	551.7	30.9	9.3	353	8.8	2.6	1.39	5.6
Philippines	640	30 100	1 820	8 932.3	200.4	475.7	1 061	18.9	44.8	.67	2.2
Republic of Korea	1 510	56 970	1 500	17 849	-28.6	831.3	1 311	-2.2	63.4	-0.05	-0.2
Singapore	3 770	8 890	1 700	3 810.7	383.9	107.0	521	73.6	20.5	4.32	10.1
Thailand	600	27 070	445	7 858.0	98.1	283.3	901	10.9	31.5	.36	1.2
Tonga	470	50	...	...	...	...	17	0.2	...	.07	...
Vanuatu	520	60	40	...	4.2	...	36	11.4	...	6.94	...

Annex Table II.14 (continued)

Country	GNP per capita, 1979 ($) (1)	Gross national product, 1979 (2)	Stock of foreign direct investment end-1978 (3)	Flows from OECD countries: Domestic investment (4)	Flows from OECD countries: Foreign direct investment (5)	Flows from OECD countries: Bank loans (6)	Flows from OECD countries: All resources (7)	Foreign direct investment as % of total flow of resources (5)/(7)	Bank loans as % of total flow of resources (6)/(7)	Foreign direct investment as percentage of GNP (5)/(2)	Foreign direct investment as percentage of domestic investment (5)/(4)
				Annual average, 1978-1980							
Socialist Asia											
China	260	250	...	770	...	7.9	...	151	5.2	-	...
Viet Nam	170	5 720	...	...	...	38.0	369	...	10.3	-	...
Europe											
Cyprus	3 170	1 960	90	647.7	1.6	54.0	54	2.9	100.4	0.08	0.2
Malta	2 790	950	120	221.7	19.6	...	40	49.0	...	2.06	8.8
Yugoslavia	2 370	52 410	170	...	22.1	1 019.3	1 203	1.8	84.7	.04	...

Sources: GNP and GNP per capita: World Bank, World Bank Atlas 1981 (Washington, D.C.); Domestic investment: United Nations Department of International Economic and Social Affairs; Foreign direct investment and other flows: Organisation for Economic Co-operation and Development, Geographical Distribution of Financial Flows to Developing Countries, 1977-1981 (Paris, 1982) and Organisation for Economic Co-operation and Development, Development Co-operation: 1980 Review (Paris, 1982), Table IX-4.

Annex Table II.15. Outflow of foreign direct investment from selected developing countries

(Millions of dollars)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Asia											
Kuwait	...	...	...	...	...	162.7	399.5	122.6	131.5	-143.4	436.0
Philippines	4.0	5.0	8.7	1.2	...	1.2	5.8	17.5	30.0	125.3	221.3
Republic of Korea	35.0	3.0	1.1	2.4	14.4	3.6	5.8	21.0	27.5	19.4	13.0
Latin America											
Brazil	14.0	1.0	27.1	37.0	58.9	111.7	182.4	145.9	125.2	195.1	368.3
Chile	...	...	...	...	...	...	...	4.7	3.8	11.6	23.4
Colombia	4.0	3.0	1.1	1.2	6.0	4.9	11.5	21.0	37.6	23.3	10.4

Source: International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.), various issues.

Annex Table II.16. Foreign direct investment by Argentina, Chile and Colombia

(Thousands of dollars)

Host country	Argentina a/	Chile b/	Colombia c/
Andean Pact countries			
Bolivia	1 724	344	-
Colombia	490	-	-
Ecuador	354	545	2 266
Peru	3 447	3 330	134
Venezuela	661	226	7 879
Andean Development Corporation	-	-	5 500
Sub-total	6 676	4 445	15 779
Other Latin America			
Argentina	-	948	-
Brazil	6 557	10	-
Chile	72		-
Curaçao		594	
Panama		3 365	13 726
Paraguay	1 177	205	-
Uruguay	6 870	13	-
Other	-	-	3 314
Sub-total	14 676	5 135	17 040
Sub-total Latin America	21 352	9 580	22 540
Other countries			
Europe	192	-	4 874
North America	97	525	5 366
Sub-total	289	525	10 240
Total	21 641	10 105	43 059

Sources: Argentina: INTAL, Bulletin on Latin American Investments and Enterprises, No. 2; based on information from Central Bank and Ministry of Economy.
Colombia: Foreign Exchange Office, Bank of the Republic
Chile: Central Bank of Chile.

Cited in Eduardo White "Latin American joint ventures: A new way to strengthen the bargaining power of developing countries vis-à-vis transnational corporations?" (mimeo), (UNCTC, 1982).

a/ Total authorized investment abroad, 1965-1978.

b/ Total foreign investment 1976-1979, registered by the Central Bank of Chile.

c/ Investment registered with the Bank of the Republic, to end-1976.

Annex Table II.17. Global distribution of foreign affiliates of transnational corporations from selected home countries among developing countries, 1980

(Percentage)

Host country	Home country a/																		All countries
	AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	
Latin America																			
Argentina	0.1	20.8	4.7	3.0	2.3	6.2	-	3.8	10.4	0.6	2.5	-	-	12.6	7.5	5.8	1.5	3.8	3.2
Bahamas	1.0	-	2.5	12.1	-	0.2	-	0.5	3.7	0.2	0.2	-	-	-	-	2.7	2.4	2.0	1.9
Barbados	0.1	-	-	2.5	-	-	-	-	-	-	-	0.9	-	-	-	-	0.7	0.2	0.3
Belize	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-
Bolivia	-	-	-	0.1	2.3	0.2	-	-	0.4	0.1	0.2	-	-	-	0.6	0.1	-	0.3	0.2
Brazil	1.0	12.5	8.8	17.2	17.9	26.5	35.2	9.9	17.6	13.7	9.6	-	18.4	14.0	18.7	12.9	4.5	11.8	10.8
Chile	-	-	2.2	0.3	-	1.8	-	1.1	0.9	0.1	0.6	-	-	1.4	2.2	1.4	0.6	1.0	0.9
Colombia	0.1	4.1	1.5	0.9	0.7	1.6	-	1.2	2.9	0.3	1.6	-	1.5	5.6	4.5	2.0	0.5	3.5	2.1
Costa Rica	-	2.0	-	1.1	-	0.1	-	0.1	-	0.6	0.5	-	-	1.4	-	2.3	-	1.3	0.7
Dominican Rep.	-	-	-	0.5	0.7	0.2	-	-	-	-	0.8	-	-	2.8	0.4	0.3	-	0.6	0.3
Ecuador	-	2.0	0.3	0.5	-	0.9	-	-	1.2	0.1	0.8	-	-	1.4	0.9	0.9	0.3	1.4	0.8
El Salvador	-	-	-	0.7	-	0.5	-	-	-	0.5	1.2	-	-	1.4	-	0.3	-	0.6	0.4
Grenada	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guatemala	-	-	0.3	2.1	0.7	0.5	-	-	0.2	0.2	1.0	-	-	1.4	0.2	0.7	-	1.3	0.7
Guyana	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	0.2	-	0.2	-	-
Haiti	-	-	-	-	-	-	-	-	-	-	0.3	-	-	-	0.2	-	-	0.3	0.1
Honduras	-	-	0.6	0.9	-	-	-	-	0.2	-	0.6	-	-	-	-	-	-	0.5	0.2
Jamaica	-	-	-	4.8	-	0.3	-	-	-	-	0.3	-	-	-	0.2	0.3	1.6	1.2	1.0
Mexico	0.3	2.0	3.4	11.9	3.9	7.7	5.8	3.0	4.7	1.8	2.1	-	1.5	16.9	7.7	7.8	1.4	16.0	8.8
Nicaragua	-	-	-	0.7	-	-	-	-	0.2	0.1	0.6	-	-	-	-	-	-	0.7	0.3
Panama	1.0	-	2.8	4.0	0.7	0.6	-	1.4	3.9	1.7	0.6	0.9	1.5	9.8	2.0	4.9	1.3	4.3	2.8
Paraguay	-	-	0.6	-	0.7	-	-	0.2	0.4	0.2	0.2	-	-	1.4	-	0.1	-	0.1	0.1
Peru	0.1	6.2	0.9	0.5	0.7	0.9	-	0.5	2.7	1.1	1.6	-	1.5	2.8	3.6	2.7	0.5	2.3	1.5
St. Lucia	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-	-
Suriname	-	-	-	0.1	-	-	-	-	-	-	3.4	-	1.5	-	-	-	-	0.1	0.2
Trinidad and Tobago	-	-	-	2.9	-	-	-	-	0.2	0.1	0.7	1.8	-	-	0.2	0.3	1.3	0.5	0.6
Uruguay	-	2.0	0.9	0.5	-	0.5	-	0.9	1.7	-	0.5	-	-	-	1.3	1.0	0.1	0.6	0.5
Venezuela	0.1	-	3.7	3.4	2.3	2.6	5.8	1.4	5.2	1.0	3.0	-	-	7.0	3.2	4.1	0.8	6.0	3.6
Africa																			
Algeria	0.1	-	0.3	-	-	0.5	-	2.8	1.2	-	-	-	-	-	1.1	0.3	-	0.1	0.2
Angola	-	-	2.2	-	0.7	0.2	-	-	-	-	1.1	-	-	-	-	-	0.4	-	0.2
Benin	-	-	-	-	-	0.1	-	1.1	0.4	-	0.2	-	-	-	-	-	-	-	0.1
Botswana	-	-	-	0.3	-	-	-	-	-	-	0.2	-	1.5	-	-	-	0.4	-	0.1
Burundi	-	-	4.0	-	0.7	-	-	-	-	-	0.2	-	-	-	-	0.1	-	-	-
Cape Verde	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Central African Republic	-	-	0.3	0.1	-	-	-	1.0	0.2	-	0.2	-	-	-	-	0.1	-	-	-
Chad	-	-	-	-	-	-	-	0.9	-	-	0.2	-	-	-	-	0.1	-	-	-
Comoros	-	-	-	-	-	-	-	0.1	-	-	0.1	-	-	-	-	-	-	-	-

Annex Table II.17 (continued)

Host country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
Africa (continued)																			
Congo	-	-	2.5	-	-	0.1	-	1.2	0.4	-	0.3	-	-	-	0.4	0.1	-	-	0.1
Djibouti	-	-	-	-	-	-	-	0.5	-	-	0.3	-	-	-	-	-	-	-	-
Egypt	-	-	2.5	-	0.7	0.3	5.8	0.1	1.2	-	0.5	-	-	-	0.2	0.9	-	0.1	0.2
Equatorial Guinea	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8	-	-	-	-	-
Ethiopia	-	-	-	-	-	0.3	-	0.2	1.7	0.1	0.6	-	1.5	-	-	-	0.1	-	0.1
Gabon	-	-	0.6	-	0.7	0.3	-	3.7	0.4	-	1.0	-	1.5	1.4	0.2	0.5	-	-	0.3
Gambia	-	-	-	-	-	0.3	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Ghana	-	-	0.3	0.3	0.7	0.9	-	0.5	0.4	-	1.0	-	1.5	-	-	0.3	1.0	0.1	0.4
Guinea	-	-	-	-	-	0.1	-	0.9	0.2	-	0.3	-	-	-	-	0.3	0.2	-	0.1
Ivory Coast	0.1	-	0.9	-	2.3	0.8	-	7.3	0.4	0.2	1.1	-	-	-	0.4	0.9	0.1	0.1	0.6
Kenya	0.5	-	0.6	0.1	5.4	1.3	-	0.2	1.2	0.2	2.1	-	3.0	-	1.3	0.9	5.8	0.3	1.7
Lesotho	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Liberia	-	-	0.3	0.7	0.7	0.8	-	0.8	1.9	0.6	1.0	-	1.5	-	1.1	0.7	0.7	2.5	1.5
Libyan Arab Jam.	-	-	-	0.1	-	-	-	0.2	0.2	-	-	-	1.5	-	-	-	-	-	-
Madagascar	-	-	0.3	-	-	0.4	-	4.3	0.9	0.2	-	-	-	-	-	0.5	-	-	0.3
Malawi	-	-	0.3	0.1	3.9	0.3	-	-	-	-	0.3	-	-	-	0.2	-	1.4	-	0.4
Mali	-	-	-	-	-	-	-	0.7	-	-	0.1	-	-	-	-	-	-	-	-
Mauritania	-	-	-	-	-	-	-	0.7	0.4	-	0.1	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	0.2	-	-	-	1.8	-	-	-	0.1	0.3	-	0.1
Morocco	0.2	-	3.4	0.1	0.7	1.0	17.6	11.9	2.2	0.1	1.5	-	-	4.2	2.7	1.0	0.1	0.2	1.1
Mozambique	-	-	0.3	-	-	-	-	-	-	-	0.8	-	-	-	-	-	0.3	-	0.1
Namibia	-	-	-	0.7	-	-	-	-	-	-	0.2	-	-	-	-	-	0.1	-	-
Niger	-	-	-	-	-	0.1	-	0.4	-	-	-	-	-	1.4	-	-	-	-	-
Nigeria	0.1	4.1	0.3	1.3	2.3	3.2	-	2.7	2.4	1.0	4.1	-	1.5	2.8	-	2.1	5.3	0.8	2.2
Rwanda	-	-	1.8	-	0.7	0.2	-	-	-	-	0.1	-	-	-	-	0.1	-	-	-
Senegal	-	-	1.2	-	-	0.6	-	4.9	-	0.2	0.6	-	-	-	-	0.3	-	-	0.3
Sierra Leone	-	-	-	-	-	0.3	-	0.3	0.2	-	0.3	-	-	-	-	0.3	0.4	-	0.1
Somalia	-	-	-	-	-	-	-	-	1.4	-	-	-	-	-	-	-	-	-	-
Sudan	0.1	2.0	0.6	-	-	-	-	-	0.4	0.1	0.2	-	1.5	-	-	0.1	-	-	-
Swaziland	-	-	-	-	-	-	-	-	-	-	0.2	-	-	-	-	0.1	0.7	-	0.2
Togo	-	-	0.3	-	-	0.2	-	1.1	0.2	-	0.6	-	-	-	-	0.1	-	-	0.1
Tunisia	-	-	0.9	-	-	0.2	-	3.7	1.4	-	1.6	-	-	-	0.2	0.3	-	0.1	0.3
Uganda	0.1	-	0.3	-	1.5	0.3	-	-	0.4	-	0.3	-	3.0	-	0.2	-	1.1	-	0.3
United Republic of Cameroon	-	-	1.2	-	0.7	0.6	-	4.5	0.2	-	0.8	-	-	1.4	-	0.1	0.1	-	0.3
United Republic of Tanzania	-	-	-	-	0.7	0.6	-	0.2	0.4	0.1	0.6	-	-	-	0.2	-	1.5	-	0.4
Upper Volta	-	-	-	-	-	-	-	1.0	-	-	0.3	-	-	-	-	0.1	-	-	-
Zaire	-	-	27.0	0.3	-	0.5	-	0.8	2.7	0.2	1.7	-	-	-	0.4	0.5	0.3	0.1	0.6
Zambia	0.2	-	0.3	0.1	0.7	0.6	-	-	0.7	-	0.3	-	3.0	-	1.1	-	3.1	0.3	0.9
Zimbabwe	0.1	-	-	2.1	-	-	-	0.1	0.2	-	0.6	-	-	-	-	0.1	6.2	0.2	1.6
West Asia																			
Bahrain	-	-	-	-	-	-	-	-	-	-	-	0.9	-	-	-	-	0.1	-	-
Iraq	-	-	-	-	-	-	-	-	-	-	0.2	-	1.5	-	0.2	-	-	-	-
Israel	0.6	-	-	0.7	-	0.7	-	0.4	0.2	-	0.3	-	1.5	-	0.4	0.3	0.4	1.1	0.7

Annex Table II.17 (continued)

Host country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
West Asia (continued)																			
Jordan	-	-	-	-	-	0.2	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Kuwait	-	2.0	-	0.1	-	0.1	-	-	-	0.1	0.1	-	-	-	-	0.1	0.1	0.1	0.1
Lebanon	-	-	0.3	0.5	-	0.6	-	1.3	1.7	0.2	0.3	-	-	-	0.6	2.5	0.5	0.3	0.5
Oman	-	2.0	-	0.1	0.7	-	-	0.2	-	-	0.1	-	-	-	-	0.1	0.2	-	-
Qatar	-	-	-	-	0.7	-	-	0.1	-	-	0.6	-	1.5	-	-	-	-	-	-
Saudi Arabia	0.1	-	0.9	0.1	2.3	0.5	11.7	0.2	0.2	0.5	1.7	-	3.0	-	1.1	1.4	0.6	0.3	0.5
Syria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turkey	-	10.4	1.5	0.3	2.3	1.3	5.8	0.7	2.2	0.1	1.0	-	-	-	1.1	0.9	0.2	0.3	0.4
United Arab Emirates	-	4.1	0.6	-	0.7	0.6	-	0.3	-	0.3	0.8	-	6.1	-	0.2	-	0.8	0.1	0.4
Yemen	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
South and East Asia																			
Afghanistan	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Bangladesh	0.1	-	0.3	-	0.7	0.1	-	-	-	-	0.7	-	-	-	-	0.1	0.3	0.2	0.2
Burma	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-	-	-	-
Democratic Kampuchea	-	-	-	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	-
Fiji	11.3	-	0.3	-	-	-	-	-	-	0.2	0.1	43.3	-	-	-	0.1	0.6	-	0.7
Hong Kong	20.4	-	0.6	5.4	5.4	2.9	5.8	1.5	0.7	18.4	4.1	11.3	4.6	-	3.8	8.1	11.4	5.7	7.7
India	0.6	4.1	0.9	1.7	1.5	4.0	-	0.8	1.7	0.9	1.4	-	-	-	5.4	3.2	5.1	2.6	2.9
Indonesia	4.4	-	2.5	0.9	2.3	1.9	-	0.7	0.7	7.9	5.9	0.9	-	-	1.1	1.8	1.4	2.2	2.4
Iran	-	12.5	1.5	0.5	5.4	5.0	-	2.5	2.9	1.8	3.0	-	1.5	5.6	5.0	2.9	1.1	0.9	1.5
Lao People's Democratic Rep.	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Malaysia	10.6	-	0.6	1.9	3.9	1.4	-	0.7	1.2	5.3	4.6	7.5	12.3	-	3.2	1.4	8.6	1.6	3.8
Nauru	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pakistan	0.5	-	0.3	-	0.7	0.6	-	-	-	0.1	0.8	-	-	-	0.9	1.4	1.2	0.7	0.7
Papua New Guinea	23.8	-	0.3	-	-	0.1	-	-	-	0.2	0.2	7.5	-	-	0.2	-	0.8	-	1.0
Philippines	1.7	-	-	1.3	3.1	1.3	5.8	0.2	-	5.0	1.1	0.9	4.6	-	2.2	2.5	0.5	3.5	2.3
Republic of Korea	-	-	-	-	-	0.6	-	0.4	-	13.0	0.6	-	-	-	0.4	0.1	0.1	1.7	1.7
Samoa	0.2	-	-	-	-	0.1	-	-	-	-	-	6.6	-	-	-	-	-	-	-
Singapore	13.4	2.0	0.6	1.1	3.1	3.7	-	0.9	0.9	7.0	4.1	9.4	9.2	-	5.4	4.5	7.8	4.7	5.4
Solomon Islands	1.0	-	-	-	-	-	-	-	-	0.1	-	0.9	-	-	-	-	-	-	-
Sri Lanka	-	-	-	-	0.7	0.1	-	-	-	-	-	-	-	-	0.2	0.1	1.2	0.1	0.3
Thailand	1.2	-	0.3	3.0	6.2	1.6	-	0.3	0.7	7.2	2.0	-	6.1	-	1.8	1.8	1.4	1.7	1.9
Tonga	0.2	-	-	-	-	-	-	-	-	-	-	1.8	-	-	-	-	-	-	-
Vanuatu	2.8	-	-	0.1	-	-	-	0.4	-	-	-	1.8	-	-	-	0.1	0.1	-	0.1

Annex Table II.17 (continued)

Host country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
Europe																			
Cyprus	0.1	-	0.3	0.3	0.7	-	-	0.1	0.2	-	1.1	-	-	-	0.2	0.1	0.9	-	0.3
Malta	-	-	0.3	0.7	-	0.2	-	-	1.9	-	0.5	0.9	-	-	-	0.1	1.0	-	0.3
Yugoslavia	-	4.1	0.3	-	0.7	1.0	-	0.2	0.4	-	0.1	-	-	-	0.4	0.1	-	-	0.1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Total cases	781	48	318	517	128	1305	17	1423	402	1764	779	106	65	71	437	550	6033	11688	27541 b/
Home country worldwide percentage	2.9	0.1	1.2	1.9	0.4	4.9	-	5.3	1.5	6.6	2.9	0.4	0.2	0.2	1.6	2.0	22.8	44.2	100.0

Source: UNCTC Corporate Profile System, 1980.

* Percentage omitted because companies from home country concerned have a total of less than 25 foreign affiliates.

a/ Home country codes:

AUS	Australia	AUT	Austria	BEL	Belgium
CAN	Canada	DNK	Denmark	DEU	Germany, Fed. Rep.
FIN	Finland	FRA	France	ITA	Italy
JPN	Japan	NLD	Netherlands	NZL	New Zealand
NOR	Norway	PRT	Portugal	ESP	Spain
SWE	Sweden	CHE	Switzerland	GBR	United Kingdom
USA	United States				

b/ Includes 1109 cases from certain home and host countries not separately identified.

Annex Table II.18. Distribution of foreign affiliates of transnational corporations from selected home countries among host developing countries within regions, 1980

(Percentage)

Host Country	Home country a/																		All countries
	AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	
Latin America																			
Argentina	3.1	40.0	14.0	4.2	6.9	11.8	-	15.3	18.1	2.6	7.4	-	-	15.7	13.8	11.3	8.1	6.1	7.5
Bahamas	25.0	-	7.4	16.7	-	0.4	-	2.2	6.4	0.9	0.7	-	-	-	-	5.3	12.6	3.3	4.4
Barbados	3.1	-	-	3.4	-	-	-	-	-	-	-	*	-	-	-	-	3.6	0.4	0.7
Belize	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	0.5	0.1	0.1
Bolivia	-	-	0.2	6.9	0.4	-	-	0.8	0.4	0.7	-	-	-	1.2	0.3	0.3	0.6	0.5	0.6
Brazil	25.0	24.0	26.1	23.6	53.4	50.6	*	39.6	30.7	59.4	28.0	-	*	17.5	34.4	25.0	23.3	19.1	24.9
Chile	-	-	6.5	0.5	-	3.5	-	4.4	1.7	0.7	1.8	-	-	1.7	4.2	2.8	3.5	1.7	2.1
Colombia	3.1	8.0	4.6	1.3	2.3	3.0	-	5.0	5.1	1.4	4.8	-	*	7.0	8.4	3.8	2.7	5.6	4.8
Costa Rica	-	4.0	-	1.5	-	0.2	-	0.5	-	2.6	1.4	-	-	1.7	-	4.5	0.3	2.1	1.6
Dominican Republic	-	-	-	0.7	2.3	0.4	-	-	-	0.2	2.6	-	-	3.5	0.8	0.7	0.4	1.0	0.9
Ecuador	-	4.0	0.9	0.7	-	1.9	-	0.2	2.1	0.7	2.6	-	-	1.7	1.6	1.7	1.6	2.2	1.9
El Salvador	-	-	-	1.0	-	1.0	-	0.2	-	2.2	3.7	-	-	1.7	-	0.7	0.4	1.0	1.0
Grenada	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guatemala	-	-	0.9	2.9	2.3	1.0	-	0.2	0.4	1.2	2.9	-	-	1.7	0.4	1.4	0.3	2.2	1.7
Guyana	-	-	-	0.2	-	-	-	0.2	-	-	-	-	-	-	0.4	-	1.3	-	0.2
Haiti	-	-	-	-	-	-	-	0.2	-	-	1.1	-	-	-	0.4	-	-	0.5	0.4
Honduras	-	-	1.8	1.3	-	0.1	-	-	0.4	0.2	1.8	-	-	-	-	-	-	0.8	0.6
Jamaica	-	-	-	6.6	-	0.5	-	0.2	-	-	1.1	-	-	-	0.4	0.7	8.4	1.9	2.4
Mexico	9.3	4.0	10.2	16.4	11.6	14.7	*	12.2	8.2	7.8	6.3	-	*	21.0	14.2	15.1	7.4	25.9	20.3
Nicaragua	-	-	-	1.0	-	0.1	-	0.2	0.4	0.4	1.8	-	-	-	-	-	0.4	1.1	0.8
Panama	25.0	-	8.4	5.5	2.3	1.3	-	5.5	6.9	7.3	1.8	*	*	12.2	3.7	9.5	7.1	7.1	6.9
Paraguay	-	-	1.8	-	2.3	0.1	-	0.8	0.8	0.9	0.7	-	-	1.7	-	0.3	0.3	0.1	0.2
Peru	3.1	12.0	2.8	0.7	2.3	1.9	-	2.2	4.7	4.8	4.8	-	*	3.5	6.7	5.3	2.8	3.7	3.5
St. Lucia	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-	1.1	-	0.1
St. Vincent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	0.0
Suriname	-	-	-	0.2	-	-	-	0.2	-	-	10.1	-	*	-	-	-	0.5	0.2	0.4
Trinidad and Tobago	-	-	-	3.9	-	0.1	-	0.2	0.4	0.4	2.2	*	-	-	0.4	0.7	6.7	0.9	1.5
Uruguay	-	4.0	2.8	0.7	-	1.0	-	3.6	3.0	0.2	1.4	-	-	-	2.5	2.1	0.8	1.1	1.2
Venezuela	3.1	-	11.2	4.7	6.9	4.9	*	5.5	9.0	4.6	8.9	-	-	8.7	5.8	8.1	4.3	9.8	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	*	100.0	100.0	100.0	100.0	*	*	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	32	25	107	376	43	683	8	358	231	409	267	4	17	57	238	283	1176	7216	11602 b/

Host Country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
Africa																			
Algeria	*	-	0.5	-	-	3.1	-	4.7	4.8	-	-	-	-	-	11.1	2.8	0.1	1.8	1.7
Angola	-	-	4.1	-	3.2	1.3	-	0.1	-	-	4.0	-	-	-	-	-	1.4	1.1	1.3
Benin	-	-	-	-	-	0.9	-	1.9	1.9	-	0.9	-	-	-	-	-	0.2	0.1	0.6
Botswana	-	-	-	5.2	-	-	-	-	-	-	0.9	-	*	-	-	-	1.5	0.3	0.8
Burundi	-	-	7.6	-	3.2	0.4	-	0.1	-	-	0.9	-	-	-	-	1.4	0.1	0.2	0.5
Cape Verde Is.	-	-	-	-	-	-	-	-	-	-	0.4	-	-	-	-	-	-	-	-
Central African Republic	-	-	0.5	2.6	-	-	-	1.7	0.9	-	0.9	-	-	-	-	1.4	-	-	0.4
Chad	-	-	-	-	-	0.4	-	1.6	-	-	0.9	-	-	-	-	1.4	-	0.2	0.4
Comoros	-	-	-	-	-	-	-	0.2	-	-	0.4	-	-	-	-	-	-	-	-
Congo	-	-	4.7	-	-	0.9	-	2.0	1.9	-	1.3	-	-	-	4.4	1.4	-	0.6	0.9
Djibouti	-	-	-	-	-	-	-	0.9	-	-	1.3	-	-	-	-	-	0.3	-	0.3
Egypt	-	-	4.7	-	3.2	1.8	*	0.2	4.8	-	1.8	-	-	-	2.2	7.1	0.3	2.0	1.1
Equatorial Guinea	-	-	-	-	-	-	-	-	-	-	-	-	-	*	-	-	-	-	-
Ethiopia	-	-	-	-	-	2.2	-	0.4	6.7	4.5	2.2	-	*	-	-	-	0.6	0.2	0.8
Gabon	-	-	1.1	-	3.2	1.8	-	6.1	1.9	1.5	3.6	-	*	*	2.2	4.2	0.3	1.0	2.0
Gambia	-	-	-	-	-	1.8	-	0.1	-	-	0.4	-	-	-	-	-	0.1	0.1	0.1
Ghana	-	-	0.5	5.2	3.2	5.9	-	0.9	1.9	-	3.6	-	*	-	-	2.8	3.3	2.4	2.6
Guinea	-	-	-	-	-	0.9	-	1.4	0.9	-	1.3	-	-	-	-	2.8	0.7	1.0	0.9
Ivory Coast	*	-	1.7	-	9.6	5.0	-	12.0	1.9	6.0	4.0	-	-	-	4.4	7.1	0.3	1.9	3.6
Kenya	*	-	1.1	2.6	22.5	8.1	-	0.3	4.8	7.5	7.7	-	*	-	13.3	7.1	18.3	4.8	10.1
Lesotho	-	-	-	-	-	-	-	-	-	-	0.4	-	-	-	-	-	0.1	0.5	0.1
Liberia	-	-	0.5	10.5	3.2	5.0	-	1.3	7.6	18.1	3.6	-	*	-	11.1	5.7	2.2	38.8	8.8
Libyan Arab Republic	-	-	-	2.6	-	-	-	0.3	0.9	-	-	-	*	-	-	-	0.2	1.0	0.3
Madagascar	-	-	0.5	-	-	2.7	-	7.1	3.8	7.5	-	-	-	-	-	4.2	0.2	0.9	2.0
Malawi	-	-	0.5	2.6	16.1	2.2	-	0.1	-	-	1.3	-	-	-	2.2	-	4.6	0.7	2.4
Mali	-	-	-	-	-	0.4	-	1.1	-	-	0.4	-	-	-	-	-	-	0.2	0.3
Mauritania	-	-	-	-	-	-	-	1.2	1.9	-	0.4	-	-	-	-	-	0.1	0.1	0.3
Mauritius	-	-	-	-	-	0.4	-	0.3	-	1.5	-	*	-	-	-	1.4	1.1	0.2	0.6
Morocco	*	-	6.4	2.6	3.2	6.3	*	19.4	8.6	3.0	5.4	-	-	*	26.6	8.5	0.6	4.3	6.3
Mozambique	-	-	0.5	-	-	-	-	-	-	-	3.1	-	-	-	-	-	1.0	0.7	0.7
Namibia	-	-	-	10.5	-	-	-	-	-	-	0.9	-	-	-	-	-	0.5	0.9	0.5
Niger	-	-	-	-	-	0.9	-	0.8	-	-	-	-	-	*	-	-	0.1	0.1	0.2
Nigeria	*	*	0.5	18.4	9.6	19.0	-	4.4	9.6	27.2	14.5	-	*	*	-	17.1	16.5	12.9	12.8
Rwanda	-	-	3.5	-	3.2	1.3	-	0.1	-	-	0.4	-	-	-	-	1.4	-	0.1	0.3
Senegal	-	-	2.3	-	-	3.6	-	8.0	-	6.0	2.2	-	-	-	-	2.8	0.3	0.3	2.2
Sierra Leone	-	-	-	-	-	1.8	-	0.5	0.9	-	1.3	-	-	-	-	2.8	1.5	0.6	1.0
Somalia	-	-	-	-	-	-	-	-	5.7	-	-	-	-	-	-	-	-	-	0.1
Sudan	*	*	1.1	-	-	0.4	-	0.1	1.9	4.5	0.9	-	*	-	-	1.4	0.2	0.2	0.4
Swaziland	-	-	-	-	-	-	-	-	-	-	0.9	-	-	-	-	1.4	2.4	0.3	1.1
Togo	-	-	0.5	-	-	1.3	-	1.9	0.9	-	2.2	-	-	-	-	1.4	0.2	0.2	0.7

Annex Table II.18 (continued)

Host Country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
Africa (continued)																			
Tunisia	-	-	1.7	-	-	1.3	-	6.1	5.7	-	5.9	-	-	-	2.2	2.8	0.3	1.6	2.2
Uganda	*	-	0.5	-	6.4	2.2	-	0.1	1.9	-	1.3	-	*	-	2.2	-	3.6	1.4	2.1
United Republic of Cameroon	-	-	2.3	-	3.2	4.0	-	7.4	0.9	-	3.1	-	-	*	-	1.4	0.3	0.5	2.1
United Republic of Tanzania	-	-	-	-	3.2	3.6	-	0.3	1.9	4.5	2.2	-	-	-	2.2	-	4.7	1.3	2.7
Upper Volta	-	-	-	-	-	0.4	-	1.7	-	-	1.3	-	-	-	-	1.4	0.1	0.3	0.5
Zaire	-	-	50.5	5.2	-	3.1	-	1.3	10.5	6.0	6.3	-	-	-	4.4	4.2	1.0	2.8	4.0
Zambia	*	-	0.5	2.6	3.2	4.0	-	0.1	2.8	1.5	1.3	-	*	-	11.1	-	9.9	5.2	5.6
Zimbabwe	*	-	-	28.9	-	-	-	0.2	0.9	-	2.2	-	-	-	-	1.4	19.3	4.0	9.3
Total	*	*	100.0	100.0	100.0	100.0	*	100.0	100.0	100.0	100.0	*	100.0	*	100.0	100.0	100.0	100.0	100.0
No. of cases	14	3	170	38	31	220	4	872	104	66	220	2	14	10	45	70	1933	765	4808 c/
South and East Asia																			
Afghanistan	-	-	-	-	-	0.3	-	-	-	-	0.4	-	-	-	-	-	-	0.1	-
Bangladesh	0.1	-	3.7	-	2.3	0.6	-	0.7	-	-	2.5	-	-	-	-	0.6	0.9	0.8	0.7
Burma	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	-	-	-	-
Democratic Kampuchea	-	-	-	-	-	-	-	3.7	-	-	-	-	-	-	-	-	-	0.1	0.1
Fiji	12.2	-	3.7	-	-	0.3	-	0.7	-	0.3	0.4	46.9	-	-	-	0.6	1.5	0.1	2.0
Hongkong	21.9	-	7.4	32.9	16.2	12.0	*	16.4	7.8	25.7	13.7	12.2	12.0	-	12.6	27.6	26.7	19.8	22.1
India	0.6	*	11.1	10.5	4.6	16.3	-	8.9	18.4	1.3	4.7	-	-	-	17.9	11.0	11.9	9.2	8.4
Indonesia	4.8	-	29.6	5.8	6.9	7.6	-	7.4	7.8	11.1	19.8	1.0	-	-	3.7	6.1	3.2	7.6	6.8
Iran	-	*	18.5	3.5	16.2	20.3	-	26.8	31.5	2.5	10.3	-	4.0	*	16.4	9.8	2.7	3.3	4.5
Lao People's Democratic Rep.	-	-	-	-	-	-	-	-	-	-	0.4	-	-	-	-	-	-	-	-
Malaysia	11.4	-	7.4	11.7	11.6	5.8	-	7.4	13.1	7.4	15.5	8.1	32.0	-	10.4	4.9	20.2	5.8	11.0
Maldives	-	-	-	-	-	-	-	0.7	-	-	-	-	-	-	-	-	-	-	-
Nauru	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pakistan	0.5	-	3.7	-	2.3	2.7	-	0.7	-	0.2	3.0	-	-	-	2.9	4.9	2.9	2.5	2.1
Papua New Guinea	25.5	-	3.7	-	-	0.6	-	-	-	0.3	0.8	8.1	-	-	0.7	-	2.0	0.2	2.8
Philippines	1.9	-	-	8.2	9.3	5.5	*	2.9	-	7.0	3.8	1.0	12.0	-	7.4	8.5	1.3	12.2	6.7
Republic of Korea	-	-	-	-	-	2.7	-	4.4	-	18.1	2.1	-	-	-	1.4	0.6	0.3	6.0	5.0
Samoa	0.2	-	-	-	-	0.6	-	-	-	-	-	7.1	-	-	-	-	-	-	0.1
Singapore	14.4	*	7.4	7.0	9.3	15.0	-	9.7	10.5	9.8	13.7	10.2	24.0	-	17.9	15.3	18.3	16.5	15.5
Solomon Islands	1.0	-	-	-	-	0.3	-	-	-	0.1	-	1.0	-	-	-	-	0.1	-	0.1
Sri Lanka	-	-	-	-	2.3	0.6	-	-	-	-	-	-	-	-	0.7	0.6	2.8	0.4	1.0
Thailand	1.3	-	3.7	18.8	18.6	6.4	-	3.7	7.8	10.1	6.8	-	16.0	-	5.9	6.1	3.3	6.0	5.6
Tonga	0.2	-	-	-	-	-	-	-	-	-	-	2.0	-	-	-	-	-	-	-
Vanuatu	3.0	-	-	1.1	-	-	-	4.4	-	-	-	2.0	-	-	-	0.6	0.3	0.1	0.4
Total	100.0	*	100.0	100.0	100.0	100.0	*	100.0	100.0	100.0	100.0	100.0	100.0	*	100.0	100.0	100.0	100.0	100.0
No. of cases	728	9	27	85	43	325	2	134	38	1264	232	98	25	4	134	163	2579	3375	10070 d/

Annex Table II.18 (continued)

Host Country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
West Asia																			
Bahrain	-	-	-	-	-	1.6	-	-	-	4.0	-	*	-	-	-	-	4.9	1.9	2.3
Democratic Yemen	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4	0.6	0.3
Iraq	-	-	-	-	-	-	-	-	-	-	4.3	-	*	-	*	-	1.3	0.9	1.1
Israel	*	-	-	*	-	16.9	-	13.4	*	-	6.5	-	*	-	*	6.4	13.1	43.1	23.5
Jordan	-	-	-	-	-	5.0	-	1.9	-	-	2.1	-	-	-	-	-	2.2	1.2	1.6
Kuwait	-	*	-	*	-	3.3	-	-	-	8.0	2.1	-	-	-	-	3.2	4.5	5.8	4.3
Lebanon	-	-	*	*	-	15.2	-	36.5	*	16.0	6.5	-	-	-	*	45.1	16.2	14.9	17.3
Oman	-	*	-	*	*	-	-	5.7	-	-	2.1	-	-	-	-	3.2	6.7	0.3	2.8
Qatar	-	-	-	-	*	-	-	3.8	-	-	10.8	-	*	-	-	-	2.7	0.3	1.9
Saudi Arabia	*	-	*	*	*	11.8	*	5.7	*	40.0	30.4	-	*	-	*	25.8	17.1	12.6	16.3
Syria	-	-	-	-	-	-	-	1.9	-	-	-	-	-	-	-	-	-	0.3	0.2
Turkey	-	*	*	*	*	30.5	*	21.1	*	8.0	17.3	-	-	-	*	16.1	6.7	11.6	14.9
United Arab Emirates	-	*	*	-	*	15.2	-	9.6	-	24.0	15.2	-	*	-	*	-	23.5	5.8	12.7
Yemen	-	-	-	-	-	-	-	-	-	-	2.1	-	-	-	-	-	-	-	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	100.0	100.0	100.0	100.0	100.0
No. of cases	6	9	11	12	9	59	3	52	18	25	46	1	9	0	17	31	221	308	841 e/
Europe																			
Cyprus	*	-	*	*	*	*	-	*	*	-	*	-	-	-	*	*	45.1	41.6	39.2
Malta	-	-	*	*	-	*	-	*	*	-	*	*	-	-	-	*	53.2	37.5	44.7
Yugoslavia	-	*	*	-	*	*	-	*	*	-	*	-	-	-	*	*	1.6	20.8	15.9
Total	*	*	*	*	*	*	-	*	*	-	*	*	-	-	*	*	100.0	100.0	100.0
No. of cases	1	2	3	6	2	18	-	7	11	-	14	1	0	0	3	3	124	24	220 f/
Developed market economies																			
Australia	-	0.9	1.1	6.2	2.6	1.5	0.4	2.2	2.8	10.9	2.2	77.8	1.2	-	2.7	2.4	15.6	6.7	8.1
Austria	-	-	1.6	0.4	1.9	11.4	2.6	1.5	2.4	0.4	1.5	-	1.7	-	2.6	5.3	0.[illegible]	1.1	2.2
Belgium	0.4	0.9	-	1.2	3.7	6.4	2.1	13.6	5.3	5.6	22.3	-	2.9	8.1	4.0	9.1	3.8	4.3	5.7
Canada	5.2	0.4	1.1	-	1.7	2.8	3.9	3.7	2.3	6.9	1.3	1.4	2.2	0.7	2.8	2.3	8.1	19.7	9.4
Denmark	-	0.4	1.6	0.6	-	2.0	4.8	0.8	1.1	0.3	1.3	-	15.8	3.7	10.4	1.5	1.2	1.0	1.6
Finland	-	0.4	0.2	-	4.4	0.4	-	0.2	0.1	0.1	0.2	-	1.7	-	6.6	0.4	0.2	0.4	0.6
France	0.8	5.2	26.5	2.5	6.0	14.9	6.9	-	20.8	3.3	10.8	0.2	3.9	20.0	8.4	12.0	7.6	7.7	8.5
Germany, F.R.	1.1	34.1	14.6	3.0	12.4	-	11.7	14.7	13.1	13.8	19.9	0.2	8.6	13.3	11.5	24.1	6.8	8.5	9.1
Greece	-	2.4	1.2	-	0.2	1.1	-	1.0	1.5	0.3	0.5	-	0.4	-	0.2	0.4	0.3	0.4	0.5
Iceland	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-	-	-	-	-	-

Annex Table II.18 (continued)

Host Country	Home country a/ AUS	AUT	BEL	CAN	DNK	DEU	FIN	FRA	ITA	JPN	NLD	NZL	NOR	ESP	SWE	CHE	GBR	USA	All countries
Developed market economies (continued)																			
Ireland	0.8	0.9	0.3	1.7	0.6	0.5	-	0.6	0.5	0.4	1.1	0.2	0.7	0.7	0.5	0.4	6.6	1.2	2.4
Italy	0.9	8.6	3.9	1.3	2.9	6.0	1.7	9.0	-	2.6	2.3	0.2	1.2	6.6	2.8	6.8	1.9	4.2	3.6
Japan	2.4	0.4	0.3	1.0	1.1	1.5	0.4	1.1	0.6	-	1.1	1.1	0.7	-	1.3	1.7	0.6	4.3	2.1
Liechtsten.	-	0.4	0.3	0.2	-	-	-	-	0.4	-	-	-	-	-	-	0.5	0.2	0.2	0.2
Luxembourg	0.7	3.3	6.7	0.2	1.3	2.2	2.1	1.6	8.0	1.8	0.6	-	1.7	3.7	0.5	2.8	0.4	0.5	1.1
Netherlands	1.2	5.2	11.4	3.7	5.0	8.0	2.1	4.7	3.0	4.6	-	0.2	1.7	4.4	6.0	4.5	8.2	5.0	5.8
New Zealand	41.9	-	0.2	0.8	0.3	0.1	-	-	0.1	1.5	0.7	-	0.2	-	0.2	0.5	3.8	1.2	2.2
Norway	0.1	0.9	0.7	0.8	7.2	0.9	5.2	0.7	0.5	0.2	0.5	0.2	-	-	9.6	0.7	0.5	0.9	1.2
Portugal	0.1	-	1.9	0.1	0.6	0.8	-	1.2	0.9	0.5	1.1	-	0.7	8.1	0.9	0.8	0.6	0.5	0.7
South Africa	5.1	1.9	0.9	1.6	1.5	3.0	0.4	1.2	1.1	-	1.8	1.4	0.9	1.4	0.8	1.6	14.7	2.5	5.5
Spain	0.6	1.4	7.8	1.2	1.8	6.0	0.8	9.9	7.5	1.6	2.2	-	1.4	-	1.9	3.3	1.8	2.8	3.1
Sweden	0.3	3.8	1.1	0.8	15.4	2.8	27.5	1.3	1.3	0.6	3.1	0.2	23.7	-	-	1.6	1.8	2.0	2.2
Switzerland	0.8	14.9	4.4	1.4	5.2	10.3	3.4	7.7	10.4	1.8	3.9	-	2.9	3.7	4.5	-	3.0	4.0	4.2
United Kingdom	25.7	5.2	5.9	27.8	16.2	8.3	14.8	14.2	7.4	7.6	14.1	12.0	16.5	22.2	12.6	9.1	-	19.9	11.7
United States	10.2	7.2	5.3	42.1	6.7	8.0	8.2	8.0	7.6	33.9	6.2	4.0	7.9	2.9	7.9	7.0	10.5	-	7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	1104	208	1428	2474	756	6087	229	3326	1136	1265	3591	348	404	135	2932	3526	18895	21959	70423g/

Source: UNCTC Corporate Profile System.

* Percentage omitted because companies from home country concerned have a total of less than 25 foreign affiliates in the region.

a/ The following codes are used to identify home countries:

AUS	Australia	AUT	Austria	BEL	Belgium	CAN	Canada
DNK	Denmark	DEU	Germany, Fed. Rep.	FIN	Finland	FRA	France
ITA	Italy	JPN	Japan	NLD	Netherlands	NZL	New Zealand
NOR	Norway	PRT	Portugal	ESP	Spain	SWE	Sweden
CHE	Switzerland	GBR	United Kingdom	USA	United States		

b/ Includes 72 affiliates (0.6 per cent of the regional total) of companies from home countries other than those listed.

c/ Includes 227 affiliates (4.7 per cent of the regional total) of companies from home countries other than those listed.

d/ Includes 805 affiliates (8.0 per cent of the regional total) of companies from home countries other than those listed.

e/ Includes 4 affiliates (0.5 per cent of the regional total) of companies from a home country other than those listed.

f/ Includes 1 affiliate (0.4 per cent of the regional total) of companies from a home country other than those listed.

g/ Includes 792 affiliates (1.1 per cent of regional total) of companies from a home country other than those listed.

Annex Table II.19. Distribution of foreign affiliates of transnational corporations from selected home countries within developing host countries, by region, 1980

(Percentage)

(a) Latin America

Home country	Host country																	
	ARG	BHS	BRB	BOL	BRA	CHL	COL	CRI	DOM	ECU	SLV	GTM	GUY	HTI	HND	JAM	MEX	NIC
Australia	0.1	1.5	1.1	-	0.2	-	0.1	-	-	-	-	-	-	-	-	-	0.1	-
Austria	1.1	-	-	-	0.2	-	0.3	0.5	-	0.4	-	-	-	-	-	-	-	-
Belgium	1.7	1.5	-	-	0.9	2.8	0.8	-	-	0.4	-	0.4	-	-	2.6	-	0.4	-
Canada	1.8	12.0	14.7	1.4	3.0	0.8	0.8	3.0	2.8	1.3	3.4	5.3	4.0	-	6.6	8.9	2.6	3.8
Denmark	0.3	-	-	4.4	0.7	-	0.1	-	0.9	-	-	0.4	-	-	-	-	0.2	-
Germany, Fed.Rep.	9.2	0.5	-	4.4	11.9	9.6	3.7	1.0	2.8	5.7	6.0	3.3	-	-	1.3	1.4	4.2	0.9
Finland	-	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-
France	6.3	1.5	-	-	4.9	6.4	3.1	1.0	-	0.4	0.8	0.4	4.0	2.0	-	0.3	1.8	0.9
Italy	4.8	2.8	-	2.9	2.4	1.6	2.1	-	-	2.2	-	0.4	-	-	1.3	-	0.8	0.9
Japan	1.2	0.7	-	2.9	8.4	1.2	1.0	5.6	0.9	1.3	7.7	2.4	-	-	1.3	-	1.3	1.9
Netherlands	2.2	0.3	-	2.9	2.5	2.0	2.3	2.0	6.6	3.0	8.6	3.8	-	6.2	6.6	1.0	0.7	4.8
New Zealand	-	-	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Norway	-	-	-	-	0.4	-	0.1	-	-	-	-	-	-	-	-	-	-	-
Portugal	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Spain	1.0	-	-	-	0.3	0.4	0.7	0.5	1.9	0.4	0.8	0.4	-	-	-	-	0.5	-
Sweden	3.7	-	-	4.4	2.8	4.0	3.5	-	1.9	1.7	-	0.4	4.0	2.0	-	0.3	1.4	-
Switzerland	3.6	2.8	-	1.4	2.4	3.2	1.9	6.6	1.9	2.2	1.7	1.9	-	-	-	0.7	1.8	-
United Kingdom	11.0	28.2	48.8	5.9	9.4	16.8	5.6	2.0	4.7	8.3	4.3	1.9	64.0	-	1.3	35.6	3.7	4.8
United States	51.2	46.4	34.0	68.6	47.8	51.2	73.0	77.5	75.2	72.2	66.3	78.2	24.0	89.5	78.6	51.4	79.7	81.5
Other home countries a/	0.1	0.9	-	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	872	523	88	67	2889	250	563	196	105	227	116	207	25	48	75	278	2349	103

Host country codes:

ARG	Argentina	BHS	Bahamas	BRB	Barbados
BOL	Bolivia	BRA	Brazil	CHL	Chile
COL	Colombia	CRI	Costa Rica	DOM	Dominican Republic
ECU	Ecuador	SLV	El Salvador	GTM	Guatemala
GUY	Guyana	HTI	Haiti	HND	Honduras
JAM	Jamaica	MEX	Mexico	NIC	Nicaragua

Annex Table II.19 (continued): (a) Latin America (continued)

Home country	Host country							All countries in region b/
	PAN	PRY	PER	SUR	TTO	URY	VEN	
Australia	0.9	-	0.2	-	-	-	0.1	0.3
Austria	-	-	0.7	-	-	0.6	-	0.2
Belgium	1.1	5.8	0.7	-	-	2.0	1.2	0.9
Canada	2.6	-	0.7	1.8	8.1	2.0	1.8	3.2
Denmark	0.1	2.9	0.2	-	-	-	0.3	0.4
Germany, Fed.Rep.	1.1	2.9	3.1	-	0.5	4.8	3.5	5.9
Finland	-	-	-	-	-	-	0.1	0.1
France	2.4	8.8	1.9	1.8	0.5	9.0	2.0	3.1
Italy	1.9	5.8	2.6	-	0.5	4.8	2.1	2.0
Japan	3.7	11.7	4.8	-	1.0	0.6	1.9	3.5
Netherlands	0.6	5.8	3.1	50.0	3.2	2.7	2.5	2.3
New Zealand	0.1	-	-	-	1.0	-	-	-
Norway	0.1	-	0.2	1.8	-	-	-	0.1
Portugal	-	-	-	-	-	-	-	-
Spain	0.8	2.9	0.4	-	-	-	0.5	0.5
Sweden	1.1	-	3.8	-	0.5	4.1	1.4	2.0
Switzerland	3.3	2.9	3.6	-	1.0	4.1	2.3	2.4
United Kingdom	10.4	11.7	7.9	11.1	43.1	6.9	5.3	10.1
United States	63.8	38.2	65.3	33.3	37.7	55.5	74.0	62.1
Other home countries a/	5.1	-	-	-	2.1	2.0	0.3	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	803	34	413	54	183	144	959	11611

Host country codes:

PAN	Panama	PRY	Paraguay
PER	Peru	SUR	Suriname
TTO	Trinidad and Tobago	URY	Uruguay
VEN	Venezuela		

Annex Table II.19 (continued): (b) Africa

Home country	Host country																	
	DZA	AGO	BEN	BWA	COG	EGY	ETH	GAB	GHA	GIN	CIV	KEN	LBI	MDG	MWI	MUS	MAR	MOZ
Australia	1.2	-	-	-	-	-	-	-	-	-	0.5	0.8	-	-	-	-	0.6	-
Austria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Belgium	1.2	11.6	-	-	19.0	14.8	-	2.1	0.8	-	1.7	0.4	0.1	1.0	0.8	-	3.7	2.7
Canada	-	-	5.1	-	-	-	-	1.6	-	-	0.2	0.6	-	0.8	-	0.3	-	-
Denmark	1.6	-	-	-	1.8	-	1.0	0.8	-	1.7	1.4	0.1	-	4.3	-	0.3	-	-
Germany, Fed.Rep.	8.9	5.0	7.1	-	4.7	7.4	12.8	4.3	10.6	4.6	6.5	3.8	1.8	6.5	4.3	3.1	4.7	-
Finland	-	-	-	-	-	1.8	-	-	-	-	-	-	-	-	-	-	1.0	-
France	52.5	1.6	60.7	-	42.8	3.7	10.2	58.6	6.5	30.2	62.8	0.6	1.9	67.3	0.8	9.3	58.2	-
Italy	6.4	-	7.1	-	4.7	9.2	17.9	2.1	1.6	2.3	1.1	1.0	1.3	4.3	-	-	3.0	-
Japan	-	-	-	-	-	-	7.6	1.0	-	-	2.3	1.0	1.9	5.4	-	3.1	0.6	-
Netherlands	-	15.0	7.1	5.1	7.1	7.4	12.8	8.6	6.5	6.9	5.3	3.6	1.3	-	2.6	-	4.1	18.9
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	6.2	-	-	-	-
Norway	-	-	-	2.5	-	-	2.5	1.0	0.8	-	-	0.4	0.1	-	-	-	-	-
Portugal	-	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.7
Spain	-	-	-	-	-	-	-	1.0	-	-	-	-	-	-	-	-	1.0	-
Sweden	6.4	-	-	-	4.7	1.8	-	1.0	-	-	1.1	1.2	0.8	-	0.8	-	4.1	-
Switzerland	2.5	-	-	-	2.3	9.2	-	3.2	1.6	4.6	2.9	1.0	0.6	3.2	-	3.1	2.0	-
United Kingdom	2.5	46.6	14.2	76.9	2.3	11.1	30.7	6.5	53.2	32.5	4.1	75.6	7.1	4.3	78.0	68.7	4.1	56.7
United States	17.9	15.0	3.5	7.6	11.9	29.6	5.1	8.6	15.5	18.6	8.9	7.9	49.0	7.6	5.2	6.2	11.3	16.2
Other home countries a/	-	-	-	2.5	-	1.8	-	-	-	-	-	0.4	32.7	-	1.7	-	0.3	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	78	60	28	39	42	54	39	92	122	43	167	468	605	92	114	32	292	37

Host country codes:

DZA	Algeria	AGO	Angola	BEN	Benin
BWA	Botswana	COG	Congo	EGY	Egypt
ETH	Ethiopia	GAB	Gabon	GHA	Ghana
GIN	Guinea	CIV	Ivory Coast	KEN	Kenya
LBR	Liberia	MDG	Madagascar	MWI	Malawi
MUS	Mauritius	MAR	Morocco	MOZ	Mozambique

Annex Table II.19 (continued): (b) Africa (continued)

Home country	Host country													All countries in region c/
	NGA	SEN	SLE	SWZ	TGO	TUN	UGA	CMR	TZA	HVO	ZAR	ZMB	ZWE	
Australia	0.1	-	-	-	-	-	1.0	-	-	-	-	0.7	0.2	0.3
Austria	0.3	-	-	-	-	-	-	-	-	-	-	-	-	0.1
Belgium	0.1	3.8	-	-	2.9	2.9	1.0	4.0	-	-	46.7	0.3	-	3.5
Canada	1.1	-	-	-	-	-	-	-	-	-	1.0	0.3	2.5	0.8
Denmark	0.5	-	-	-	-	-	2.0	1.0	0.8	-	-	0.3	-	0.6
Germany, Fed.Rep.	7.0	7.7	8.0	-	8.8	2.9	5.0	9.0	6.4	4.0	3.8	3.4	-	4.6
Finland	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
France	6.5	67.9	10.0		50.0	52.9	1.0	65.0	2.4	60.0	6.5	0.3	0.4	18.1
Italy	1.6	-	2.0	-	2.9	5.8	2.0	1.0	1.6	-	5.9	1.1	0.2	2.2
Japan	3.0	3.8	-	-	-	-	-	-	2.4	-	2.1	0.3	-	1.4
Netherlands	5.3	4.8	6.0	3.7	14.7	12.7	3.0	7.0	4.0	12.0	7.6	1.1	1.1	4.6
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Norway	0.1	-	-	-	-	-	2.0	-	-	-	-	0.7	-	0.3
Portugal	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
Spain	0.3	-	-	-	-	-	-	1.0	-	-	-	-	-	0.2
Sweden	-	-	-	-	-	0.9	1.0	-	0.8	-	1.0	1.9	-	0.9
Switzerland	2.0	1.9	4.0	1.8	2.9	1.9	-	1.0	-	4.0	1.6	-	0.2	1.5
United Kingdom	53.6	5.8	60.0	87.0	11.7	5.8	71.0	7.0	73.6	8.0	11.4	73.0	86.8	40.2
United States	16.6	2.9	10.0	5.5	5.8	12.7	11.0	4.0	8.0	12.0	11.9	15.2	7.1	15.9
Other home countries a/	1.1	0.9	-	1.8	-	0.9	-	-	-	-	-	0.6	1.1	4.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	596	103	50	54	34	102	100	100	125	25	184	263	432	4808

Host country codes:

NGA	Nigeria	SEN	Senegal	SLE	Sierre Leone
SWZ	Swaziland	TGO	Togo	TUN	Tunisia
UGA	Uganda	CMR	Cameroon	TZA	Tanzania
HVO	Upper Volta	ZAR	Zaire	ZMB	Zambia
ZWE	Zimbabwe				

Annex Table II.19 (continued): (c) South and East Asia

Home country	Host country															All countries in region d/
	BGD	FJI	HKG	IND	IDN	IRN	MYS	PAK	PNG	PHL	KOR	SGP	LKA	THA	VUT	
Australia	1.5	41.5	7.3	0.6	5.2	-	6.3	2.0	66.9	2.0	-	6.4	-	1.7	33.3	7.2
Austria	-	-	-	0.2	-	1.4	-	-	-	-	-	-	-	-	-	0.1
Belgium	1.5	0.4	-	0.3	1.1	1.1	0.1	0.5	0.3	-	-	0.1	-	0.1	-	0.3
Canada	-	-	1.2	1.1	0.7	0.7	0.7	-	-	1.0	-	0.3	-	2.8	1.5	0.8
Denmark	1.5	-	0.3	0.2	0.4	1.6	0.3	0.5	-	0.5	-	0.2	1.0	1.4	-	0.4
Germany, Fed.Rep.	3.0	0.4	1.7	6.7	3.7	15.7	1.4	4.5	0.7	2.6	1.9	3.0	2.0	3.6	-	3.2
Finland	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
France	1.5	0.4	1.0	1.5	1.4	8.5	0.7	0.5	-	0.5	1.2	0.8	-	0.8	9.0	1.3
Italy	-	-	0.1	0.8	0.4	2.8	0.3	-	-	-	-	0.2	-	0.5	-	0.4
Japan	1.5	1.8	14.8	2.1	20.9	7.6	7.2	1.5	1.4	13.3	49.1	7.7	1.0	22.4	1.5	12.5
Netherlands	9.0	0.4	1.4	1.3	6.8	5.7	2.7	3.5	0.7	1.3	1.0	1.9	-	2.8	-	2.3
New Zealand	-	21.4	0.5	-	0.1	-	0.6	-	2.8	0.1	-	0.6	-	-	3.0	1.0
Norway	-	-	0.1	-	-	0.2	0.6	-	-	0.4	-	0.3	-	0.7	-	0.2
Portugal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	-	-	-	0.9	-	-	-	-	-	-	-	-	-	-
Sweden	-	-	0.7	3.0	0.7	5.2	1.0	2.0	0.3	1.4	0.4	1.4	1.0	1.4	-	1.3
Switzerland	1.5	0.4	2.0	2.2	1.4	3.8	0.6	4.0	-	2.0	0.2	1.5	1.0	1.7	1.5	1.6
United Kingdom	36.3	19.1	31.5	39.1	12.6	16.9	40.1	38.5	19.4	5.2	2.1	29.2	75.5	15.2	12.1	25.6
United States	42.4	2.8	30.6	39.5	38.3	26.9	15.0	42.5	3.2	62.2	43.5	34.4	16.3	36.0	7.5	33.5
Other home countries a/	10.6	5.8	0.5	5.4	0.2	21.4	-	3.9	6.2	0.2	11.0	2.0	8.1	30.3	8.0	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	66	214	2186	787	673	419	1301	200	278	667	468	1618	98	569	66	10075

Host country codes:

BGD	Bangladesh	FJI	Fiji	HKG	Hong Kong
IND	India	IDN	Indonesia	IRN	Iran
MYS	Malaysia	PAK	Pakistan	PNG	Papua New Guinea
PHL	Philippines	KOR	Korea, Rep. of	SGP	Singapore
LKA	Sri Lanka	THA	Thailand	VUT	Vanuatu

Annex Table II.19 (continued): (d) West Asia

Home country	Host country							All countries in region e/
	ISR	KWT	LBN	OMN	SAU	TUR	ARE	
Australia	2.5	-	-	-	0.7	-	-	0.7
Austria	-	2.7	-	4.0	-	4.0	1.8	1.1
Belgium	-	-	0.6	-	2.1	4.0	1.8	1.3
Canada	2.0	2.7	2.0	4.0	0.7	1.6	-	1.4
Denmark	-	-	-	4.0	2.1	2.4	0.9	1.1
Germany, Fed.Rep.	5.0	5.5	6.1	-	5.1	14.4	8.2	7.0
Finland	-	-	-	-	1.4	0.8	-	0.3
France	3.5		13.0	12.0	2.1	8.8	4.5	6.2
Italy	0.5	-	4.7	-	0.7	7.2	-	2.1
Japan	-	5.5	2.7	-	7.2	1.6	5.5	3.0
Netherlands	1.5	2.7	2.0	4.0	10.2	6.4	6.4	5.5
New Zealand	-	-	-	-	-	-	-	0.1
Norway	0.5	-	-	-	1.4	-	3.6	1.1
Portugal	-	-	-	-	-	-	-	-
Spain	-	-	-	-	-	-	-	-
Sweden	1.0	-	2.0	-	3.6	4.0	0.9	2.0
Switzerland	1.0	2.7	9.5	4.0	5.8	4.0	-	3.7
United Kingdom	14.7	27.7	24.6	60.0	27.7	12.0	47.7	26.3
United States	67.5	50.0	31.5	4.0	28.4	28.8	16.5	36.7
Other home countries a/	-	-	0.6	4.0	-	-	1.8	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	197	36	146	25	137	125	109	841

Host country codes:

ISR	Israel	KWT	Kuwait
LBN	Lebanon	OMN	Oman
SAU	Saudi Arabia	TUR	Turkey
ARE	United Arab Emirates		

Annex Table II.19 (continued): (e) Europe

Home country	Host country			All countries in region
	CYP	MLT	YUG	
Australia	1.1	-	-	0.4
Austria	-	-	5.7	0.9
Belgium	1.1	1.0	2.8	1.4
Canada	2.2	4.0	-	2.7
Denmark	1.1	-	2.8	0.9
Germany, Fed.Rep.	1.1	3.0	40.0	8.2
Finland	-	-	-	-
France	2.2	1.0	11.4	3.2
Italy	1.1	8.1	5.7	5.0
Japan	-	-	-	-
Netherlands	10.3	4.0	2.8	5.4
New Zealand	-	1.0	-	0.4
Norway	-	-	-	-
Portugal	-	-	-	-
Spain	-	-	-	-
Sweden	1.1	-	5.7	1.4
Switzerland	1.1	1.0	2.8	1.4
United Kingdom	64.3	67.3	5.7	56.4
United States	11.4	9.1	14.2	10.9
Other home countries a/	1.1	-	-	0.4
Total	100.0	100.0	100.0	100.0
No. of cases	87	98	35	220

Host country codes:

CYP Cyprus MLT Malta YUG Yugoslavia

Annex Table II.19 (continued): (f) Developed market economies

Home country	Host country AUS	AUT	BEL	CAN	DNK	FIN	FRA	DEU	GRC	IRL	ITA	JPN
Australia	-	-	0.1	0.8	-	0.2	0.1	0.1	0.2	0.5	0.3	1.6
Austria						1.1	0.2	0.1	1.3	0.1	0.7	-
Belgium	0.3	1.4	-	0.2	1.9	3.2	0.8	6.3	4.9	0.2	2.1	0.3
Canada	2.7	0.6	0.7	-	1.3	1.1	0.4	1.0	0.5	2.5	1.3	1.6
Denmark	0.3	0.9	0.6	0.1	-	1.4	7.4	0.7	0.5	0.2	0.8	0.6
Finland	-	0.3	0.1	0.1	0.9	0.4	0.	0.2	18.5	1.8	14.3	6.5
France	1.3	3.2	10.7	1.8	2.2	7.3	1.5	-	-	-	0.1	-
Germany, Fed. Rep.	1.6	44.4	9.6	2.6	10.4	-	6.5	15.1	9.2	1.2	11.4	2.5
Italy	0.5	1.7	1.4	0.4	1.1	2.3	0.4	3.9	4.9	0.3	-	0.4
Japan	2.5	0.3	1.7	1.3	0.4	2.7	0.4	0.7	1.3	0.3	1.2	-
Netherlands	1.4	3.4	19.5	0.7	4.1	11.1	2.1	6.5	4.9	2.4	3.2	2.9
New Zealand	4.8	-	-	-	-	-	-	-	-	-	-	0.2
Norway	-	0.4	0.2	0.1	5.5	0.5	1.5	0.2	0.5	0.1	0.1	0.2
Portugal	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	0.2	-	0.4	0.2	-	0.4	-	-	0.3	-
Sweden	1.4	5.0	2.9	1.2	26.3	5.2	42.4	4.1	1.9	0.8	3.3	2.7
Switzerland	1.5	11.9	7.8	1.2	4.6	13.2	3.2	7.0	4.6	0.9	9.4	4.1
United Kingdom	53.5	9.0	17.5	23.2	19.9	20.0	10.6	24.2	16.3	72.4	14.4	8.1
United States	26.7	16.5	23.4	65.6	20.2	29.0	21.7	28.4	29.7	15.3	36.2	64.7
Other home countries a/	3.7	-	2.5	0.1	-	0.1	-	0.1	0.2	-	-	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	5719	1560	4107	6618	1164	6440	459	5990	367	1730	2568	1479

Host country codes:

AUS	Australia	AUT	Austria	BEL	Belgium
CAN	Canada	DNK	Denmark	FIN	Finland
FRA	France	DEU	Germany, Fed. Rep.	GRC	Greece
IRL	Ireland	ITA	Italy	JPN	Japan

Annex Table II.19 (continued): (f) Developed market economies (continued)

Home country	Host country												All countries in region
	LIE	LUX	NLD	NZL	NOR	PRT	ZAF	ESP	SWE	CHE	GBR	USA	
Australia	0.9	0.7	0.3	27.1	0.2	0.4	1.3	0.3	0.2	0.3	3.1	1.9	1.4
Austria	0.8	0.7	0.2	-	0.2	-	0.1	0.1	0.5	1.0	0.1	0.2	0.2
Belgium	12.0	3.5	4.0	0.1	1.3	5.5	0.3	5.0	1.0	2.1	1.0	1.4	2.0
Canada	0.7	4.9	2.2	1.3	2.6	0.8	1.0	1.4	1.2	1.2	8.2	19.4	3.5
Denmark	1.2	-	0.9	0.1	6.5	1.0	0.3	0.6	7.5	1.3	1.4	0.9	0.5
Finland	0.6	-	0.1	-	1.4	-	-	-	4.0	0.2	0.4	0.3	0.3
France	6.8	-	3.7	0.1	2.7	8.2	0.9	14.5	2.9	8.4	4.5	4.8	4.6
Germany, Fed. Rep.	16.7	2.8	11.9	0.5	7.0	10.8	4.8	16.7	11.2	21.1	6.0	9.1	8.6
Italy	11.3	3.5	0.8	0.1	0.7	2.2	0.3	3.8	0.9	4.0	1.0	1.6	1.6
Japan	2.8	0.7	1.4	1.2	0.3	1.4	-	0.9	0.5	0.8	1.1	8.0	1.8
Netherlands	3.0	-	-	1.7	2.3	8.4	1.7	3.6	7.2	4.8	6.1	4.2	5.1
New Zealand	-	-	-	-	0.1	-	0.1	-	-	-	0.5	0.2	0.4
Norway	0.8	-	0.1	-	-	0.6	0.1	0.2	6.2	0.4	0.8	0.5	0.5
Portugal	-	-	-	-	-	-	-	-	-	-	-	-	-
Spain	0.6	-	0.1	-	-	2.2	-	-	-	0.1	0.3	-	0.1
Sweden	1.9	-	4.3	0.4	33.6	5.6	0.6	2.5	-	4.5	4.4	4.3	2.2
Switzerland	12.3	12.7	3.9	1.2	3.3	6.0	1.5	5.3	3.7	-	3.8	4.6	5.0
United Kingdom	11.2	38.2	38.2	46.5	12.5	23.2	71.0	16.1	23.2	19.1	-	37.0	26.8
United States	15.5	31.9	26.9	17.5	24.6	23.4	14.1	27.9	28.8	29.7	52.6	-	31.2
Other home countries[a]	-	-	-	1.2	0.1	0.2	1.2	0.3	-	0.3	2.8	0.6	3.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of cases	808	141	4075	1563	841	500	3912	2211	1540	2965	8309	5355	7042.3

Host country codes:

LIE	Liechtenstein	LUX	Luxembourg	NLD	Netherlands
NZL	New Zealand	ZAF	South Africa	ESP	Spain
SWE	Sweden	CHE	Switzerland	GBR	United Kingdom
USA	United States				

Source: UNCTC Corporate Profile System, 1980 (see Explanatory Notes).

a/ Comprises selected foreign investments of transnational corporations based in Hong Kong, Malaysia and Singapore.

b/ Includes 40 cases (0.3 of the regional total) from host countries with less than 25 identified affiliates

c/ Includes 236 cases (4.9 of the regional total) from host countries with less than 25 identified affiliates.

d/ Includes 403 cases (4.0 of the regional total) from other host countries in the region and 62 cases (0.6 of regional total) from host countries with less than 25 identified affiliates.

e/ Includes 66 cases(7.8 of regional total) from host countries with less than 25 identified affiliates.

Annex Table II.20 Predominance within host countries of affiliates of companies from selected home countries, 1980

A. Proportion of affiliates from leading home countries in each host country or territory

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Latin America						
Argentina	USA	UK	FRG, France	9	51.2	77.7
Bahamas	UK, USA	Canada	-	5	46.4	89.4
Barbados	UK, USA	Canada	-	1	48.8	98.6
Belize	USA, UK	-	FRG	-	50.0	100.0
Bolivia	USA	-	UK	8	68.6	83.3
Brazil	USA	FRG	Japan, UK	6	47.8	67.5
Chile	USA	UK	France, FRG	6	51.2	84.0
Colombia	USA	-	UK	7	73.0	85.8
Costa Rica	USA	-	Japan, Switzerland	5	77.5	92.7
Dominica	UK	-	-	-	100.0	100.0
Dominican Rep.	USA	-	Netherlands	6	75.2	89.3
Ecuador	USA	-	FRG, UK	6	72.2	89.2
El Salvador	USA	-	FRG, Japan Netherlands	3	66.3	88.6
Grenada	Canada, UK USA	-	-	-	33.3	100.0
Guatemala	USA		Canada	5	78.2	90.6
Guyana	UK	USA	-	3	64.0	96.0
Haiti	USA	-	Netherlands	2	89.5	99.7
Honduras	USA	-	Canada, Netherlands	7	78.6	94.4
Jamaica	UK, USA	-	Canada	7	51.4	97.3
Mexico	USA	-	-	7	79.7	90.2
Nicaragua	USA	-	-	4	81.5	94.9
Panama	USA	UK	-	9	63.8	82.5
Paraguay	USA	Japan, UK	Belgium, France Italy, Netherlands	4	38.2	70.4
Peru	USA	-	UK	7	65.3	81.8
St. Lucia	UK	USA	Canada	-	81.2	100.0
St. Vincent	UK, USA	-	-	-	66.6	99.9
Suriname	Netherlands, USA	UK	-	3	50.0	96.2
Trinidad	UK, USA	-	Canada	3	43.1	92.1
Uruguay	USA	-	France, UK	8	55.5	76.2
Venezuela	USA	-	UK	9	74.0	85.3

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Africa						
Algeria	France	USA	FRG, Italy, Sweden	4	52.5	85.7
Angola	UK	Belgium Netherlands USA	FRG	3	46.6	88.2
Benin	France	UK	FRG, Italy, Netherlands	1	60.7	89.1
Botswana	UK	-	Canada, Netherlands, USA	2	76.9	94.7
Burundi	Belgium	-	Netherlands, UK, USA	4	56.5	82.3
Cape Verde	Netherlands	-	-	-	100.0	100.0
Central Africa	France	-	Netherlands	4	71.4	90.3
Chad	France	-	Netherlands, USA	3	66.6	90.3
Comoros	France, Netherlands	-	-	-	66.6	99.9
Congo	France	Belgium USA	Netherlands	5	42.8	80.8
Djibouti	France, UK	Nether-lands	-	-	47.0	99.6
Egypt	USA	Belgium, UK	FRG, Italy, Netherlands, Switzerland	5	29.7	64.7
Equat. Guinea	Spain	-	-	-	100.0	100.0
Ethiopia	UK	FRG, France, Italy, Netherlands	Japan, USA	1	30.7	74.2
Gabon	France	-	Netherlands, UK, USA	9	58.6	82.3
Gambia	FRG	France, Netherlands, UK, USA	-	-	44.4	88.8
Ghana	UK	FRG, USA	France, Netherlands	3	53.2	85.8
Guinea	France, UK	USA	Netherlands	3	32.5	88.2
Ivory Coast	France	-	FRG, Netherlands, USA	7	62.8	83.5
Kenya	UK	-	USA	7	75.6	90.9
Lesotho	UK, USA	Hong Kong, Netherlands	-	-	44.4	99.9
Liberia	Hong Kong, USA	-	UK	5	49.0	90.7

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Africa (continued)						
Libya Ar. Jam.	USA	France, UK	Canada, Italy, Norway	-	44.4	88.7
Madagascar	France	-	FRG, Japan, USA	4	67.3	86.8
Malawi	UK	-	USA	4	78.0	91.8
Mali	France	USA	FRG, Netherlands, UK	-	66.6	93.1
Mauritania	France	Italy, UK	Netherlands, USA	-	64.7	93.9
Mauritius	UK	France	USA, Netherlands	3	68.7	90.4
Morocco	France	USA	-	9	58.2	78.3
Mozambique	UK	Netherlands, USA	-	3	56.7	94.5
Namibia	UK, USA	Canada	Netherlands	-	43.4	99.7
Niger	France	FRG, UK	Spain, USA	-	53.8	92.0
Nigeria	UK	USA	France, FRG, Netherlands	4	53.6	83.7
Rwanda	Belgium	FRG	Denmark, France, Netherlands, Switzerland, UK, USA	-	40.0	73.2
Senegal	France	-	FRG, UK	5	67.9	86.2
Sierra Leone	UK	France, USA	FRG, Netherlands	2	60.0	88.0
Somalia	Italy	-	-	-	100.0	100.0
Sudan	-	Japan, UK	Belgium, Italy, Netherlands, USA	6	22.7	54.3
Swaziland	UK	-	USA	3	87.0	98.0
United Rep. of Cameroon	France	-	FRG, Netherlands, UK	6	65.0	88.0
United Rep. of Tanzania	UK	-	FRG, USA	4	73.6	92.0
Togo	France	Netherlands, UK	FRG, USA	3	50.0	85.2
Tunisia	France	Netherlands USA	Italy, UK	3	52.9	84.1
Uganda	UK	USA	FRG	8	71.0	90.0
Upper Volta	France	Netherlands, USA	UK	2	60.0	92.0

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Africa (continued)						
Zaire	Belgium	UK, USA	France, Italy, Netherlands	5	46.7	77.6
Zambia	UK	USA	-	4	73.0	93.5
Zimbabwe	UK	-	USA	3	86.8	97.5
West Asia						
Bahrain	UK, USA	-	FRG, Japan & New Zealand	-	55.0	95.0
Democratic Yemen	UK, USA	-	-	-	66.6	100.0
Iraq	UK, USA	Netherlands, Norway, Sweden	-	-	30.0	90.0
Israel	USA	UK	FRG	6	67.5	90.7
Jordan	UK, USA	FRG	France, Netherlands	-	35.7	92.7
Kuwait	UK, USA	-	FRG, Japan	4	50.0	88.7
Lebanon	USA	France, UK	FRG, Switzerland	5	31.5	78.6
Oman	UK	France	-	7	60.0	80.0
Qatar	Netherlands, UK	France	Denmark, Norway, USA	-	37.5	87.4
Saudi Arabia	UK, USA	Netherlands	FRG, Japan, Switzerland	6	28.4	73.5
Syrian Ar. Rep.	France, USA	-	-	-	50.0	100.0
Turkey	USA	FRG,UK	France, Italy, Netherlands	7	28.8	64.0
United Arab Emirates	UK	USA	FRG, Japan & Netherlands	5	47.7	78.8
Yemen	Netherlands	-	-	-	100.0	100.0

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
South and East Asia						
Afghanistan	USA	FRG, Netherlands, UK	-	-	62.5	100.0
Bangladesh	UK, USA	-	Netherlands	7	42.4	90.7
Burma	Sweden, UK	-	-	-	50.0	100.0
Fiji	Australia	Hong Kong, New Zealand, UK	-	2	41.5	92.2
Hong Kong	UK, USA	Japan	Australia	7	31.5	84.2
India	UK, USA	-	FRG	6	39.5	88.3
Indonesia	USA	Japan, UK	Australia, Netherlands	7	38.3	78.6
Iran, Isl. R.	USA	FRG, UK	France, Japan, Netherlands, Sweden	5	26.9	68.0
Kampuchea,Dem.	France, USA	UK	-	-	50.0	100.0
Korea, Rep.of	Japan, USA	-	-	4	49.1	96.6
Lao, PDR	Netherlands	-	-	-	100.0	100.0
Malaysia	UK	Singapore, USA	Australia, Hong Kong, Japan	3	40.1	77.5
Maldives	France, Japan	-	-	-	50.0	100.0
Nauru	Australia	-	-	-	100.0	100.0
Pakistan	UK, USA	-	-	6	42.5	89.5
Papua New Guinea	Australia	UK		5	66.9	92.3
Philippines	USA	Japan	Hong Kong, UK	6	62.2	86.3
Samoa	New Zealand	Australia, FRG, USA	Hong Kong	-	66.9	93.2
Singapore	UK, USA	-	Australia, Hong Kong, Japan	5	34.4	77.7
Solomon Isl.	Australia	Hong Kong, Japan, UK	FRG, New Zealand, USA	-	44.4	83.2
Sri Lanka	UK	USA	-	6	75.5	95.8
Thailand	USA	Japan, UK	Hong Kong	8	36.0	79.5
Tonga	Australia, New Zealand	USA	-	-	40.0	100.0
Vanuatu	Australia, Hong Kong	UK	France, USA	4	33.3	84.7

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Europe						
Cyprus	UK	USA, Netherlands		10	64.3	88.2
Malta	UK		Italy,US	7	67.3	88.5
Yugoslavia	FRG	France,USA	Austria,Italy Sweden, UK	3	40.0	71.3
Developed market economies						
Australia	UK, US	-	-	9	51.8	85.5
Austria	FRG	Switzerland, US	Sweden, UK	4	44.4	81.8
Belgium	US	France, Netherlands, UK	FRG, Switzerland	4	23.4	71.1
Canada	US	UK	-	5	65.5	93.0
Denmark	Sweden	FRG, UK US	Norway	6	26.3	76.8
Finland	Sweden	UK, US	Denmark, FRG	4	42.4	82.1
France	US	FRG, UK	Canada, Netherlands, Switzerland	3	28.2	74.7
Germany, FR	US	Netherlands Switzerland, UK	France, Sweden	6	29.0	73.3
Greece	USA	FRG, UK	France	7	29.7	73.7
Iceland	Sweden,UK	Netherlands, Norway, Switzerland, USA	-	0	25.0	75.0
Ireland	UK	USA	-	4	72.4	92.6
Italy	USA	France, FRG, UK	Switzerland	5	36.2	76.3
Japan	USA	-	FRG, UK	7	64.7	83.4
Liechtenstein	-	Belgium, FRG, Italy, Switzerland, UK, USA	France	4	16.7	56.5

Annex Table II.20 (continued)

Host country	Percentage of affiliates accounted for by each specified home country: 25 or more	10 to 25	5 to 10	Other home countries accounting for 1 to 5 per cent (Number)	Percentage of affiliates accounted for by corporations from: Leading home country	Four leading home countries
Developed market economies (continued)						
Luxembourg	UK, USA	Switzer-land	-	4	38.2	87.7
Netherlands	UK, USA	FRG	-	6	38.2	81.3
New Zealand	Australia, UK	USA	-	2	46.5	92.8
Norway	Sweden	UK, USA	FRG, Denmark	6	33.6	77.8
Portugal	-	FRG, UK, USA	Belgium, France, Netherlands, Sweden, Switzer-land	4	23.4	65.6
South Africa	UK	USA	-	6	71.0	91.6
Spain	USA	France, FRG, UK	Belgium, Switzerland	4	27.9	75.2
Sweden	USA	FRG, UK	Denmark, Nether-lands, Norway	5	28.8	70.7
Switzerland	USA	FRG, UK	France	7	29.7	78.3
United Kingdom	USA	-	Canada, France, FRG, Netherlands	8	52.6	72.9
United States	UK	Canada	FRG, Japan	7	37.0	73.5

Source : Annex table II.19.

Annex Table II.20 (continued)

B. Importance of affiliates of companies from the leading home country in each host country or territory

Proportion of affiliates from the home leading country (per cent)							
29.9 or less	30-39.9	40-49.9	50-59.9	60-69.9	70-79.9	80-89.9	90-100
Latin America							
	Grenada Paraguay	Bahamas Barbados Belize Brazil Suriname Trinidad & Tobago	Argentina Chile Jamaica Uruguay	Bolivia El Salvador Guyana Panama Peru St. Vincent	Colombia Costa Rica Dominican R. Ecuador Guatemala Honduras Guatemala Mexico Venezuela	Haiti Nicaragua St. Lucia	Dominica
Africa							
Egypt Sudan	Ethiopia Guinea Rwanda	Angola Congo Djibouti Gambia Lesotho Liberia Libyan Ar. Jam. Namibia Togo Zaire	Algeria Burundi Gabon Ghana Morocco Mozambique Niger Nigeria Upper Volta Sierre Leone Tunisia	Benin Cameroon Chad Comoros Ivory Coast Madagascar Mali Mauritania Mauritius Reunion Senegal	Botswana Cen.Afr.Rep. Kenya Malawi Tanzania Uganda Zambia	Swaziland Zimbabwe	Cape Verde Eq. Guinea Sao Tomé & Principe Somalia
West Asia							
Saudi Arabia Turkey	Iraq Jordan Lebanon Qatar	Kuwait Syrian Ar. Rep. United Arab Republic	Bahrain Oman	D. Yemen Israel			Yemen

Annex Table II.20 (continued)

B. (continued)

Proportion of affiliates from the home leading country (per cent)							
29.9 or less	30-39.9	40-49.9	50-59.9	60-69.9	70-79.9	80-89.9	90-100
South and East Asia							
Iran	Hong Kong India Indonesia Singapore Thailand Tonga Vanuatu	Bangladesh Burma D. Kampuchea Fiji Malaysia Maldives Pakistan Rep. of Korea Solomon Is.	Tuvalu	Afghanistan Niue Island Papua New Guinea Philippines Somoa	Sri Lanka	Laos Nauru	
Europe							
	Yugoslavia		Cyprus Malta				
Developed market economies							
Belgium Denmark France Germany, Fed.Rep. Greece Iceland Liech-tenstein Portugal Spain Sweden Switzerland	Italy Luxembourg Netherlands Norway United States	Austria Finland New Zealand	Australia United Kingdom	Canada Japan	Ireland South Africa		

Source : Annex table II.19.

Annex Table II.20 (continued)

C. Importance of affiliates of companies from the four leading home countries in each host country or territory

Proportion of affiliates from the home leading country (per cent)					
49.9 or less	50-59.9	60-69.9	70-79.9	80-89.9	90-100
Latin America					
	Brazil	Argentina	Bolivia	Belize	Jamaica
		Paraguay	Chile	Costa Rica	St. Lucia
		Uruguay	Colombia	Guyana	St. Vincent
			Ecuador	Mexico	Trinidad and
			El Salvador	Nicaragua	Tobago
			Panama	Suriname	Guatemala
			Bahamas	Barbados	
			Dominican Republic	Dominica	
				Grenada	
			Peru	Haiti	
			Venezuela	Honduras	
Africa					
Sudan	Egypt	Ethiopia	Algeria		
		Morocco	Angola	Botswana	Sao Tome & Principe
		Rwanda	Gabon	Cape Verde	Somalia
		Zaire	Gambia	Central African	Zimbabwe
			Benin	Republic	Niger
			Ghana	Chad	Tanzania
			Guinea	Comoro Islands	Upper Volta
			Ivory Coast	Equatorial	Zambia
			Congo	Guinea	Djibouti
			Libya	Kenya	Swaziland
			Madagascar	Liberia	
			Nigeria	Lesotho	
			Senegal	Mauritius	
			Sierra Leone	Malawi	
			Togo	Mali	
			Cameroon	Mauritania	
			Uganda	Mozambique	
			Tunisia	Namibia	
			Burundi	Reunion	
West Asia					
	Turkey		Lebanon	Iraq	Bahrain
			Oman	Kuwait	Israel
			Saudi Arabia	Qatar	Jordan
			United Arab Emirates		Syria
					Yemen
					Yemen, Dem.

Annex Table II.20 (continued)

C. (continued)

Proportion of affiliates from the home leading country (per cent)					
49.9 or less	50-59.9	60-69.9	70-79.9	80-89.9	90-100
South and East Asia					
	Iran	Indonesia		Afghanistan	Laos
		Malaysia	Hong Kong	Bangladesh	Maldives
		Singapore	India	Burma	Papua New Guinea
		Thailand	Br. Solomon Islands	Democratic Kampuchea	Sri Lanka
			Pakistan	Fiji	Niue Island
			Philippines	Other Asia	Tonga
			Tuvalu	Nauru	Samoa
			Vanuatu	Norfolk	
				Rep. of Korea	
Europe					
		Yugoslavia	Cyprus		
			Malta		
Developed market economies					
Liechtenstein	Portugal	Belgium	Australia	Canada	
		Denmark	Austria	Ireland	
		France	Finland	New Zealand	
		Germany, FR	Japan	South Africa	
		Greece	Luxembourg		
		Iceland	Netherlands		
		Italy	Switzerland		
		Norway			
		Spain			
		Sweden			
		United Kingdom			
		United States			

Source: Annex Table II.19.

Annex Table II.21. Dispersion of the affiliates of companies from selected home countries among host countries and territories

Home country	Percentage of affiliates of corporations from home country accounted for by host country			Host countries accounting for 1-5 per cent (Number)	Leading host country share (Per cent)	Share of four largest host countries (Per cent)
	More than 20	10 to 20	5 to 10			
Australia	Papua New Guinea, Hong Kong	Fiji, Malaysia, Singapore	-	8	23.8	69.0
Austria	Argentina	Brazil, Iran, Turkey	Peru	14	20.8	56.2
Belgium	Zaire	-	Brazil	18	27.0	44.2
Canada	-	Bahamas, Brazil Mexico	Hong Kong	15	17.2	46.6
Denmark	-	Brazil	Hong Kong, Iran, Kenya, Thailand	15	17.9	34.9
Germany, Fed. Rep.	Brazil	-	Argentina, Iran, Mexico	15	26.5	45.4
France	-	Morocco	Brazil, Ivory Coast	20	11.9	34.0
Italy	-	Brazil, Argentina	Venezuela	22	17.6	37.9
Japan	-	Brazil, Hong Kong, Rep. of Korea	Indonesia, Malaysia Philippines, Singapore, Thailand	6	18.4	53.0
Netherlands	-	-	Brazil, Indonesia	28	9.6	24.2
New Zealand	Fiji	Hong Kong	Malaysia, Papua New Guinea, Singapore, Samoa	4	43.3	71.5
Norway	-	Brazil, Malaysia	Singapore, United Arab Emirates, Thailand	23	18.4	46.0

Annex Table II.21 (continued)

Home country	Percentage of affiliates of corporations from home country accounted for by host country: More than 20	10 to 20	5 to 10	Host countries accounting for 1-5 per cent (Number)	Leading host country share (Per cent)	Share of four largest host countries (Per cent)
Spain		Argentina, Brazil, Mexico	Colombia, Iran, Panama, Venezuela	14	16.9	53.3
Sweden		Brazil	Argentina, India, Iran, Mexico, Singapore	18	18.7	39.3
Switzerland		Brazil	Argentina, Hong Kong, Mexico	20	12.9	34.6
United Kingdom		Hong Kong	India, Kenya, Malaysia, Nigeria, Singapore, Zimbabwe	18	11.4	34.0
United States		Brazil, Mexico	Hong Kong, Venezuela	20	16.0	39.5
Singapore	Hong Kong, Malaysia			5	57.3	92.9
Hong Kong	Liberia	Malaysia, Singapore	Panama, Thailand	4	32.5	68.2
Malaysia	Hong Kong, Singapore		Indonesia	4	59.8	90.7

Source : Annex table II.17.

Annex Table II.22. Predominance of affiliates of transnational corporations from selected home countries, 1980

(Number of host countries)

Home Country	Proportion of affiliates from given home country (per cent)			Leading positions
	25 or more	10 to 25	5 to 10	
I. Affiliates in developing countries				
Australia	5	1	4	9 a/
Austria	-	-	1	-
Belgium	3	2	3	3
Canada	1	3	6	1 a/
Denmark	-	-	2	-
France	22	7	13	23 b/
Germany, Fed.Rep.	2	9	24	2
Hong Kong	2	3	5	-
Italy	1	2	11	1
Japan	2	8	11	2 a/
Netherlands	5	13	31	4
Norway	-	-	3	-
New Zealand	2	1	2	2 a/
Singapore	-	1	-	-
Spain	1	-	1	1
Sweden	1	-	4	1 a/
Switzerland	-	-	6	-
United Kingdom	47	24	18	38 c/
United States	55	22	23	45 c/
II. Affiliates in developed market economies				
Australia	1	-	-	-
Belgium	-	1	3	-
Canada	-	-	1	-
Denmark	-	-	3	-
France	-	3	5	-
Germany, Fed.Rep.	1	10	6	2
Italy	-	1	-	-
Japan	-	-	1	-
Netherlands	-	3	4	-
Norway	-	1	2	-
Sweden	4	-	3	4 a/
Switzerland	-	5	5	-
United Kingdom	8	14	2	8 a/
United States	13	12	-	12

Source: Annex Table II.19.

a/ Country shares leading position in one host country.

b/ Country shares leading position in two host countries.

c/ Country shares leading position in three host countries.

Annex Table II.23 Share of transnational corporations in the manufacturing sector of industrialized host countries, 1971-1978

(Percentage)

Host country	Year	Number of persons employed	Production	Value added	Wages and salaries	Profits	Investment in gross capital formation	Assets
I. Enterprises which are more than 50 per cent foreign-owned								
Australia	1972/73	23.6	28.7	34.3	31.3	...	42.0	...
Austria	1973	20.1	22.1	22.5	21.9	...	20.4	...
	1976	21.8	22.7	...	...	...	...	...
Belgium	1968	18.3	33.0	...	...	...	...	...
	1975	33.0	44.0	...	...	...	...	...
	1978	38.0	...	...	...	...	...	...
Canada	1972	52.4	...	...	...	...	...	...
	1974	43.1	51.1	51.0	46.1	...	...	53.9
	1975	44.3	56.2	...	...	64.8	...	...
	1976	...	...	...	...	...	45.1	...
	1977	...	56.6	...	...	...	...	...
Denmark	1971	...	8.0	...	...	...	5.0	...
	1976	...	8.8	...	...	...	...	...
Finland	1972	2.8	...	...	...	...	...	...
	1976	3.2	2.7	3.5	...	...	...	...
	1977	3.3	2.7	3.5	...	...	...	...
Italy	1977	18.3	23.8	...	...	...	...	...
Norway	1974	7.8	12.9	11.0	8.6	...	7.0	10.0
	1975	7.2	...	8.9	...	...	9.2	...
	1976	7.2	10.8	...	...	...	...	...
	1977	6.7	10.4	10.1	...	...	6.3	...
Spain	1971	...	11.2	...	...	...	...	...
Sweden	1974	4.8	...	5.2	5.0	5.2	3.2	4.5
	1975	5.7	6.8	...	...	...	...	...
	1976	5.7	7.3	6.5	6.3	6.5	3.0	5.5
	1977	...	...	6.5	6.1	8.5	4.2	4.3
United Kingdom	1971	10.3	14.2	13.3	11.8	...	16.2	...
	1973	10.8	15.3	14.7	12.5	...	15.8	...
	1975	12.4	18.7	...	...	17.9	...	...
	1977	13.9	21.2	...	...	22.5	...	...
II. Enterprises which are more than 20 per cent foreign-owned								
France	1973	19.4	...	...	...	...	24.1	...
	1975	19.0	27.8	24.5	21.6	29.4	28.7	...
Germany, Federal Republic of	1972	22.4	25.1	...	...	...	...	...
	1976	16.8	21.7	...	...	...	...	22.1
Japan	1972	1.9	3.8	...	...	6.0	...	4.2
	1973	2.0	3.8	...	...	4.2	...	4.1
	1975	1.8	5.1	...	...	...	...	...
	1978	1.8	4.2	...	...	6.9	...	4.2

Source: Organization for Economic Co-operation and Development, "Penetration of multinational enterprises in manufacturing industry in member countries", pp. 11 and 16; "Statistics updated at the end of 1978", p. 3; and "Recent information on the industrial impact of multinational enterprises" (OECD document DSTI/IND/80.50).

Annex Table II.24. Share of transnational corporations in the manufacturing sector of selected Latin American countries

(Percentage)

ISIC Code	Sector	Chile a/		Colombia b/	Peru c/	
		1967	1978	1974	1971	1974
31	Food industry	19.7	18.5	16.4	...	...
311-2	Food products	...	16.4	22.0	26.1	24.4
313	Beverages	...	1.6	3.1	30.1	24.5
314	Tobacco	...	100.0	1.1	91.3	79.6
32	Textile industry	8.4	11.2	50.2	...	...
321	Textiles	...	4.1	61.9	28.1	25.6
322	Wearing apparel	...	...	9.3	6.0	-
323	Leather goods	...	51.2	18.4	6.8	8.9
324	Footwear	...	...	22.7	29.0	28.5
33	Wood industry	1.6	0.0	23.2	...	...
331	Wood and its products	...	...	33.5	5.4	2.4
332	Furniture, excluding metal	...	...	6.0	12.8	14.5
34	Paper industry	12.8	16.6	55.8	...	...
341	Paper and its products	...	21.1	79.3	74.9	13.2
342	Printing and publishing	...	12.5	6.0	2.4	-
35	Chemical industry	41.4	56.6	62.4	...	...
351	Ind. chemical substances	...	54.0	79.5	54.8	47.8
352	Other chemical products	...	53.2	60.2	58.5	60.9
353	Petroleum refineries	...	...	22.0	6.1	5.4
354	Derivatives:petroleum/coal	...	69.3	9.2	80.3	-
355	Rubber products	...	72.8	82.0	84.0	78.0
356	Plastic products	...	35.5	47.2	26.8	36.0
36	Non-met. mineral products	39.7	39.6	58.4	...	...
361	Clay/porcelain products	...	12.5	16.6	-	-
362	Glass and its products	...	...	84.0	9.3	10.5
369	Other products	...	61.2	56.6	36.4	3.2
37	Basic metal products	30.6	15.4	54.7	...	...
371	Iron and steel	...	...	49.8	20.4	16.6
372	Non-ferrous metals	...	46.7	73.5	94.3	5.9
38	Metalworking industry	27.9	47.8	58.2	...	...
381	Metal products	...	28.6	42.7	18.9	14.0
382	Non-electric machinery	...	7.1	29.6	15.1	16.4
383	Electric machinery	...	55.7	67.2	53.8	55.1
384	Transport equipment	...	79.4	79.7	40.6	46.1
385	Scientific equipment	...	24.0	38.6	46.2	45.1
39	Other manufacturing industry	...	18.3	23.4	14.5	8.4
	Total	18.6	25.2	43.4	34.0	25.2

Sources: Chile: Eugenio Latrera "Presencia y Participación de las empresas transnacionales en la economía chilena", Economic Commission for Latin America (mimeo), 1980, Tables 58 and 59.
Peru: Fernando González Vigil, Capital extranjero y transnacionales en la industria peruana (Centro de Investigación y Capacitación y Editorial Horizonte, Lima, 1982).

Colombia: Michael Mortimore "Foreign participation in Colombian development: the role of transnational corporations", Economic Commission for Latin America, Joint CEPAL/CTC Unit Working Paper No. 14, June 1979, Table 19.

a/ Share of sales accounted for by firms with at least 10 per cent foreign participation.

b/ Share of production accounted for by firms with foreign participation.

c/ Share of manufacturing production accounted for by transnational corporations.

Annex table II.25. Foreign firms' share of Brazilian industry, selected sectors, 1970 and 1977

(Percentage)

Sector	Fixed assets		Sales		Equity		Employment
	1970	1977	1970	1977	1970	1977	1977
Aircraft	36	7	46	20	46	13	26
Auto parts	58	57	63	54	63	50	46
Automobiles	100	100	100	100	100	100	100
Beverages	16	23	13	24	13	17	17
Cement	26	41	25	33	25	25	27
Ceramics	26	31	36	41	36	39	36
Chemicals	54	57	55	57	55	42	61
Coffee	43	8	15	13	15	12	19
Conglomerates	31	55	31	71	31	58	55
Divers goods	6	13	12	20	12	14	19
Diverse food products	47	36	46	52	46	40	41
Domestic appliances	76	74	73	76	73	74	64
Drugs	83	82	30	84	80	74	79
Electrical products	81	86	81	79	81	84	83
Fishing	24	22	24	24	24	16	27
Footwear	-	26	-	32	-	28	26
Furniture	9	24	9	13	9	19	23
Gas	35	40	40	16	40	34	25
Glass	53	69	49	76	49	76	65
Grains	38	9	35	15	35	27	16
Industrial machinery	66	51	67	59	67	47	54
Leather	21	39	21	42	21	23	37
Meats	24	17	26	23	26	20	27
Metallic minerals	18	36	17	21	17	21	15
Metallurgical products	38	29	36	32	36	33	33
Non-ferrous metals	45	38	37	64	37	57	54
Non-metallic minerals	3	25	5	42	5	23	32
Office equipment	96	91	93	73	93	76	69
Other mineral products	43	22	57	44	57	30	37
Paper	33	20	23	24	23	33	24
Perfumes	64	51	57	38	57	50	33
Petroleum	10	9	14	36	14	9	14
Plastics	73	42	68	57	68	43	49
Precision instruments	40	15	27	24	27	25	18
Rubber	67	62	71	81	71	68	70
Shipbuilding	45	34	30	16	30	17	30
Spinning and weaving	39	37	39	34	39	29	26
Tobacco	91	99	95	99	95	98	96
Tractors	83	83	80	84	80	61	69
Vegetable oils	5	52	4	59	4	52	45
All sectors	34	33	37	44	37	31	38

Source: J. Mooney and R. Newfarmer, "State Enterprise and Private Sector Development in Brazil", UNCTC (mimeo), 1981.

Annex Table II.26. Majority-owned affiliates as a proportion of all affiliates of transnational corporations in selected host countries

(Percentage)

Host country	Proportion of investment by United Kingdom companies in fully-owned subsidiaries		Proportion of investment by United States companies in majority-owned affiliates	Ratio of subsidiaries to total identified affiliates
	1974	1978	1977	1980
Egypt	...	...	7.3	61
Ghana	87.4	16.0	78.0	67
Kenya	66.9	31.1	...	77
Malawi	65.6	29.8	...	76
Sierra Leone	67.4	18.3	...	74
Tanzania	46.4	79.2	...	80
Zambia	85.2	53.3	...	82
Zimbabwe	...	67.0	...	86
Israel	30.6	37.3	...	62
Hong Kong	...	85.6	80.9	83
Korea, Rep. of	...	...	15.1	58
Malaysia	...	57.1	...	67
Pakistan	12.3	17.4	...	76
Philippines	...	...	76.0	64
Singapore	46.6	78.8	67.9	80
Sri Lanka	35.7	41.8	...	69
Thailand	63.4	42.7	51.9	61
Argentina	83.2	59.0	79.8	79
Bahamas	100.0	82.3	83.2	89
Barbados	89.7	100.0	...	79
Brazil	...	40.2	90.4	79
Chile	...	...	83.4	77
Colombia	...	...	46.2	73
Ecuador	...	...	25.0	83
Jamaica	52.5	27.2	...	78
Mexico	50.0	73.4	66.4	74
Panama	...	...	84.4	86
Peru	57.1	71.4	10.0	78
Trinidad and Tobago	59.3	48.5	3.4	75
Venezuela	...	...	78.8	79

Sources: John H. Dunning and John A. Cantwell, "Joint ventures and non-equity foreign involvement by British firms with particular reference to developing countries: an exploratory study", University of Reading Discussion Papers in International Investment and Business Studies No. 68, November 1982.

United States Department of Commerce, U.S. Direct Investment Abroad, 1977 (Washington, Government Printing Office, 1981).

UNCTC Corporate Profile System (See Annex A).

Annex Table II.27. Malaysia: Pattern of ownership of enterprises

A. Manufacturing and hotel companies, 1979

(Percentage)

Sector	Type of ownership					
	Wholly, locally-owned	Minority foreign-owned	Co-owned	Majority foreign-owned	Wholly foreign-owned	Total
Food, drink, tobacco	59.2	25.2	2.2	9.6	3.9	100.0
Textiles and leather products	43.9	36.0	1.8	15.6	2.4	100.0
Wood and wood products	67.8	24.0	1.2	5.6	1.9	100.0
Paper, paper products and printing	62.5	27.2	1.1	9.1	-	100.0
Chemicals and chemical products	42.1	32.1	2.1	17.3	6.6	100.0
Non-metallic mineral products	56.9	31.3	-	7.8	3.9	100.0
Basic metals products	56.2	31.2	-	8.3	4.2	100.0
Metals and machinery	37.5	32.1	3.0	13.7	13.7	100.0
Other manufacturing	35.5	41.9	3.2	12.9	6.5	100.0
Hotels	81.8	18.2	-	-	-	100.0
Total	50.6	29.8	1.9	11.6	6.1	100.0

B. Foreign Investment Projects, 1980-81

Type of Ownership	Number of projects	Per cent	Proposed call-up capital ($ million)	Percent
Wholly Foreign	66	10.4	104	14.4
Majority Foreign	172	27.1	262	36.3
Co-owned	11	1.7	15	2.1
Minority Foreign	386	60.8	342	47.4
Total projects	635	100.0	722	100.0

Source: Tan Siew Ee and M. Kulasingham, "New forms of international investments: the Malaysian experience", Organisation for Economic Co-operation and Development, Development Centre, (mimeo), 1982, Tables 10 and 12.

Annex Table II.28. Singapore: ownership structure of manufacturing industry, 1963 and 1978

(Percentage)

Item	Wholly foreign owned		Joint Ventures		Wholly locally owned	
	1963	1978	1963	1978	1963	1978
Number of enterprises	4.7	12.9	8.0	19.9	87.3	67.2
Employment	12.4	35.7	20.3	32.8	67.3	31.5
Value of output	30.9	59.2	22.7	23.5	46.4	35.7
Exports	33.1	70.7	24.3	21.2	42.6	8.1

Source: Pang Eng Fong, "Foreign Direct Investment in Singapore: Preliminary Report", OECD Development Centre (mimeo), 1982, Table 3.

Annex Table II.29. Republic of Korea: minority foreign ownership, by sector, 1968 and 1980

(Percentage)

Sector	Minority foreign ownership as proportion of:			
	Total number of firms with foreign involvement		Total amount of investment by firms with foreign involvement	
	1968	1980	1968	1980
Agriculture, fisheries and forestry	37.5	68.3	6.0	60.0
Mining	-	65.4	-	75.0
Manufacturing	46.2	43.2	25.0	26.0
Textile	56.3	63.9	34.0	13.0
Chemical	33.3	40.9	1.0	18.0
Petroleum	66.7	28.6	65.0	14.0
Metal and machinery	50.0	45.0	26.0	35.0
Electrical and Electronic	21.4	30.7	-	40.0
Finance	50.0	36.4	73.0	35.0
Construction	-	38.9	-	40.0
Hotels	50.0	27.9	86.0	19.0
Other	100.0	39.1	100.0	49.0
Total	43.4	44.3	27.0	27.0

Source: Bohn-Young Koo, "Status and changing forms of foreign investment in Korea", OECD Development Centre (mimeo), 1982, Tables 27 and 28.

Annex Table II.30. United States: Receipts of fees and royalties, 1970-1981

(Millions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Receipts from affiliates												
Developed market economies	1 404	1 594	1 815	1 949	2 388	2 770	2 793	3 046	4 054	4 181	4 841	4 805
Western Europe	811	937	1 088	1 179	1 428	1 765	1 702	1 861	2 561	2 646	3 176	3 035
Canada	357	389	420	416	541	566	631	673	811	886	931	980
Japan	91	103	121	170	211	223	260	302	436	397	413	413
Other	145	165	186	183	209	216	200	210	247	253	322	377
Eastern Europe	-	-	-	-	-	-	-	-	-	-	-	-
Developing Countries	491	537	572	519	630	722	686	704	876	1 008	1 227	1 331
Latin America and other western hemisphere	318	335	325	269	341	376	299	337	372	422	581	669
Asia and Africa	173	202	247	250	290	345	389	367	504	587	646	661
Unallocated	24	29	28	46	51	51	51	133	-225	-210	-288	-268
Sub-total	1 919	2 161	2 415	2 513	3 070	3 543	3 530	3 883	4 705	4 981	5 781	5 867
Receipts from unaffiliated foreign entities												
Developed market economies	510	553	583	633	646	641	684	740	859	890	950	1 104
Western Europe	251	270	274	297	321	344	350	382	423	456	467	590
Canada	34	33	38	32	38	38	45	42	47	43	60	64
Japan	202	225	243	273	249	219	246	275	344	343	361	379
Other	23	25	28	31	38	40	43	41	45	48	62	71
Eastern Europe	4	9	8	5	11	14	19	50	34	33	20	22
Developing Countries	66	64	72	74	94	102	120	130	163	179	215	260
Latin America and other Western hemisphere	46	46	47	48	63	60	63	71	98	89	101	131
Asia and Africa	20	18	25	26	31	42	57	59	65	90	114	129
Sub-total	580	626	663	712	751	757	822	923	1 059	1 100	1 185	1 386
Grand total	2 499	2 787	3 078	3 225	3 821	4 300	4 352	4 806	5 764	6 083	6 966	7 253

Source: United States Department of Commerce, Survey of Current Business, various issues.

Annex Table II.31. The world's largest industrial transnational corporations: selected data for 1980

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
001	EXXON CORP.	USA	290 110 38	38le/	...	25 413	...	5 650	...	...	177	52.5	...
002	ROYAL DUTCH/SHELL GROUP (NLD)	GBR	290	77 263	...	28 653	...	5 814	...	...	161	67.1	...
003	MOBIL OIL CORP.	USA	290	63 726	69.1	13 069	...	2 813	2 125	75.5	213	...	...
004	GENERAL MOTORS	USA	370	57 728	27.9	17 815	11.6	-762	-687	90.2	746	30.7	...
005	TEXACO INC.	USA	290	51 196	68.6	12 526	...	2 240	1406	62.8	67	...	...
006	BRITISH PETROLEUM	GBR	290	48 052	77.6	29 877	23.0	3 339	...	...	118	37.9	5 325
007	STANDARD OIL OF CALIFORNIA	USA	290	40 479	56.5	11 077	...	2 401	...	...	40	...	...
008	ENI	ITA	290	37 248	...	3 141	...	116	...	...	123	...	...
009	FORD MOTORS CO.	USA	370	37 086	50.3	8 567	...	-1 543	475	-30.8	427	57.8	...
010	GULF OIL CORP.	USA	290	28 389	40.6	9 637	...	1 407	657	46.7	59	37.7	...
011	STANDARD OIL CO. (INDIANA)	USA	290	27 832	20.1	9 385	...	1 915	860	44.9	56	17.5	...
012	IBM	USA	357	26 213	52.6	16 453	45.9	3 562	1 902	53.4	341	43.1	...
013	GENERAL ELECTRIC	USA	360	25 523	20.9	8 200	28.5	1 514	639	42.2	402	29.1	4 265
014	ATLANTIC RICHFIELD CO.	USA	290	24 578	8.0	7 439	...	1 651	34	2.1	53	...	...
015	FIAT S.P.A.	ITA	371	24 270	...	3 877	...	70	...	...	343	20.3	...
016	UNILEVER (GBR) f/	NLD	200	24 161	36.0	5 140	...	667	333	49.9	300	48.0	...
017	COMPAGNIE FRANCAISE DES PETROLES	FRA	290	23 910	56.9	4 671	...	1 205	...	...	48	43.0	...
018	ITT	USA	360	23 819	51.8	6 273	33.1	894	465	52.0	348	52.9g/	...
019	VEBA	DEU	290	23 081	17.1	4 463	...	272	...	...	84	7.9	...
020	PETROLES DE VENEZUELA	VEN	290	19 751	...	13 426	...	3 451	...	...	38	...	17 987
021	RENAULT	FRA	371	18 958	45.4	2 332	...	151	...	...	223	24.4	5 840
022	CONOCO INC.	USA	290	18 766	38.3	11 036h/	43.3	1 026	509	49.6	42	14.9	...
023	SOCIETE NATIONALE ELF AQUITAINE	FRA	290	18 430	26.7	5 871	...	1 375	...	...	45	...	...
024	PHILIPS GLOEILAMPENFABRIEKEN	NLD	360	18 377	91.8	6 537	...	165	...	...	372	78.8	5 057
025	VOLKSWAGENWERK A.G.	DEU	371	18 313	64.4	3 390	...	177	...	...	258	38.4	7 758
026	B.A.T. INDUSTRIES	GBR	210	17 785	77.0	5 939	...	544	...	...	177	73.2	491
027	SIEMENS A.G.	DEU	360	17 583	54.1	4 862	...	348	...	...	344	31.7	5 683
028	DAIMLER BENZ A.G.	DEU	371	17 084	55.4	2 923	...	606	104	17.1	183	16.9	6 947
029	PEUGEOT S.A.	FRA	371	16 825	54.9	2 871	15.0	-356	-239	67.0	245	21.9	5 932
030	PETROLEOS BRASILEIRO	BRA	290	16 555	...	...	...	825	...	...	48	...	527
031	BASF	DEU	280	16 499	49.2	3 775	...	198	...	...	117	25.0	5 330
032	HOECHST	DEU	280	16 458	35.0	3 588	...	306i/	65	21.1	187	46.0	5 607
033	BAYER	DEU	280	15 858	52.3	4 150	...	402	...	...	182	44.2	3 270
034	NIPPON STEEL	JPN	330	14 997	...	2 598	...	337	...	...	70	...	...
035	THYSSEN A.G.	DEU	332	14 955	42.9	...	...	57	...	...	152	15.8	...
036	PEMEX	MEX	290	14 813	...	...	...	17	...	...	128	...	...
037	NESTLE	CHE	200	14 608	...	5 168	...	408	...	...	153	54.2	...
038	TOYOTA MOTOR CORP.	JPN	371	14 599	46.6	7 602	...	633	...	...	47	...	...
039	E.I. DU PONT DE NEMOURS & CO.	USA	280	13 744	34.0	5 624	...	706	247	35.0	137	...	2 197
040	PHILLIPS PETROLEUM	USA	290	13 713	22.4	4 937	31.1	1 070	462	43.2	32	17.9	374
041	TENNECO INC.	USA	350	13 488	...	4 164	25.4	726	77	10.6	106	...	...
042	NISSAN MOTOR CO. LTD.	JPN	371	13 302	...	7 873	...	379	...	...	56	...	...
043	IMPERIAL CHEMICAL INDUSTRIES	GBR	280	13 295	58.0	10 929	...	302	...	...	143	41.1	2 729
044	SUN CO., INC.	USA	290	13 242	21.2	4 311	18.5	723	286	39.6	49	10.9	...
045	HITACHI LTD.	JPN	360	12 990	...	13 697	...	51	...	...	143	...	2 645
046	MATSUSHITA ELECTRIC INDUSTRIAL CO.	JPN	360	12 860	39.9	10 930	...	549	...	...	107	...	...
047	MITSUBISHI HEAVY INDUSTRIES	JPN	350	12 780	.7	1 323	1.9	105	-8	7.8	58	8.9	4 142
048	OCCIDENTAL PETROLEUM	USA	290	12 726	...	6 231	37.9	711	206	29.0	35	34.5	651
049	UNITED STATES STEEL CORP.	USA	332	12 492	5.6	5 288	...	504	...	...	149	...	...
050	UNITED TECHNOLOGIES	USA	360	12 399	23.6	2 758	21.2	393	167	42.5	200	32.0	2 143
051	STANDARD OIL OF OHIO	USA	290	11 702	...	4 561	...	1 811	...	...	23	...	...
052	PETROFINA S.A.	BEL	290	11 603	84.5	2 079	...	321	345	107.4	23	78.7	...
053	PROCTER AND GAMBLE	USA	280	11 416	32.8	3 863	...	593	130	21.9	60	...	...
054	COMPAGNIE GENERALE D'ELECTRICITE	FRA	360	10 833	7.5	1 645	...	133	...	...	180	16.8	2 522
055	THE DOW CHEMICAL CO.	USA	280	10 626	51.7	4 440	48.8	805	342	42.5	57	38.7	1 237

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
056	UNION OIL CO. OF CALIFORNIA	USA	290	10 472	22.3	3 477	...	647	23	3.5	19	...	...
057	GETTY OIL CO.	USA	290	10 437	18.2	4 144	...	872	212	24.3	17	...	...
058	R.J. REYNOLDS INDUSTRIES	USA	210	10 354	...	3 445	32.6	670	136	20.2	83	50.0	535
059	ST. GOBAIN-PONT-A-MOUSSON	FRA	320	10 291	45.2	2 130	61.0	215	153	71.1	163	53.0	1 552
060	UNION CARBIDE CORP.	USA	280	9 994	31.5	4 776	30.8	890	221	24.8	116	46.2	680
061	PHILLIP MORRIS INC.	USA	210	9 822	25.3	2 853	21.4	577	91	15.8	72	43.1	702
062	BOEING CO.	USA	372	9 786	...	2 315	...	600	...	...	106	...	5 504
063	TOSHIBA	JPN	360	9 761	...	1 249	...	223	...	...	99	...	2 152
064	EASTMAN KODAK CO.	USA	386	9 734	42.4	6 028	24.1	1 154	254	22.0	130	34.8	...
065	DART AND KRAFT INC.	USA	200	9 411	30.1	2 620	24.8	383	117	30.6	80	35.0	...
066	CHRYSLER CORP.	USA	371	9 225	22.5	459	59.8	-1 710	-136	...	93	17.2	...
067	IMPERIAL GROUP PLC.	GBR	210	9 140	11.7	2 536	...	187	...	...	127	29.9	156
068	THOMSON BRANDT	FRA	360	9 116	...	704	...	77	...	...	128	...	...
069	MONTEDISON	ITA	280	9 085	13.6	1 671	...	-523	...	...	106	5.3	2 621
070	RUHRKOHLE A.G.	DEU	111	9 034	...	7 116	...	18 j/	...	...	137	...	...
071	PECHINEY-UGINE-KUHLMAN	FRA	330	9 018	24.2	1 961	...	143	...	...	89	...	2 687
072	BEATRICE FOODS CO. k/	USA	200	8 773	23.6	2 181	23.2	304	140	19.4	80	...	...
073	MARATHON OIL	USA	290	8 754	16.7	1 923	91.2	379	6	1.5	15	...	...
074	IDEMITSU KOSAN	JPN	290	8 707	...	52	...	-14	...	...	8	...	...
075	CATERPILLAR TRACTOR CO.	USA	353	8 598	21.1	3 432	...	565	...	...	82	23.7	3094
076	MARUZEN OIL CO. LTD.	JPN	290	8 556	...	...	...	-112	...	...	5	...	...
077	CANADIAN PACIFIC LTD.	CAN	400	8 539	23.7	3 013	...	499	108	21.6	122	21.6	1 409
078	ASHLAND OIL INC.	USA	290	8 520	2.5	1 162	5.0	205	11	5.2	25	...	...
079	WESTINGHOUSE ELECTRIC CO.	USA	360	8 514	13.2	2 546	12.7	403	36	9.0	146	16.6	1 192
080	GOODYEAR TIRE & RUBBER	USA	300	8 444	43.9	2 302	57.6	231	166	71.9	144	48.2	...
081	XEROX CORP.	USA	357	8 197	46.7	3 625	...	619	280	45.2	120	...	...
082	NATIONAL COAL BOARD	GBR	100	8 159	...	294	...	...	...	...	297	...	...
083	AEG-TELEFUNKEN	DEU	360	8 077	16.5	...	...	...	...	...	138	21.7	2 072
084	RCA CORP.	USA	360	8 011	16.9	1 862	...	315	...	...	133	...	...
085	LTV CORP.	USA	330	8 010	1.6	819	3.1	128	2	1.9	64	...	195
086	HONDA MOTORS	JPN	371	7 980	75.1	1 606	...	441	275	62.4	385	9.7	3 537
087	AMERADA HESS CORP.	USA	290	7 955	7.7	2 357	52.0	540	152	28.1	8	...	...
088	CITIES SERVICE CO.	USA	290	7 898	6.1	2 579	14.3	477	...	...	19	4.2	...
089	FRIED. KRUPP	DEU	332	7 761	36.9	2 403	...	98	...	...	86	10.5	...
090	DSM	NLD	280	7 504	63.1	1 122	...	13	...	...	31	30.1	3 591
091	GENERAL ELECTRIC CO.	GBR	360	7 470	21.4	2 764	...	965	142	14.7	153	22.9	1 873
092	MICHELIN	FRA	300	7 327	...	2 080	...	72	...	...	130	12.3	...
093	INDIAN OIL CORP.	IND	290	7 263	...	1 633	...	137	...	...	21	...	...
094	MANNESMANN	DEU	350	7 212	27.6	5 309	17.9	100	...	...	103	27.8	3 239
095	RHONE-POULENC	FRA	280	7 146	29.8	7 024	29.4	461	...	...	95	36.3	1 858
096	SCHNEIDER S.A.	FRA	353	7 111	52.2	326	...	-31	...	...	105	19.0	...
097	CIBA-GEIGY LTD.	CHE	280	7 110	97.5	6 474	...	182	106	58.4	81	71.8	2 273
098	RIO TINTO ZINC CORP.	GBR	100	7 072	75.4	6 845	85.4	362	321	88.8	66	79.6	245
099	ESTEL N.V.	NLD	332	7 036	...	976	...	-245	...	...	78	65.2	...
100	ROCKWELL INTERNATIONAL	USA	370	6 907	14.0	1 740	...	280	...	...	108	16.7	543
101	BRITISH STEEL CORP.	GBR	332	6 872	7.5	5 060	6.7	-1 554	35	...	121	...	1 552
102	ROLLS ROYCE	GBR	372	6 808	...	2 511	...	-146	...	...	62	...	...
103	GUTEHOFFNUNGSHUTTE	DEU	370	6 804	...	1 087	...	67	...	...	86	...	3 935
104	AMERICAN BRANDS INC.	USA	210	6 801	64.1	1 711	...	405	...	...	28	...	...
105	NIPPON KOKAN	JPN	332	6 777	32.0	6 072	...	173	...	...	33	...	2 223
106	BETHLEHEM STEEL CORP.	USA	332	6 743	...	2 622	...	121	...	...	89	...	...
107	BRITISH LEYLAND LTD.	GBR	371	6 693	28.8	3 265	...	-922	...	...	143	15.7	2 047
108	GENERAL FOODS CORP.	USA	200	6 644	30.7	1 610	33.5	255	...	...	53	45.3	...
109	MONSANTO	USA	280	6 574	24.3	2 808	28.3	149	-66	...	62	27.0	932
110	BOSCH (ROBERT) GMBH	DEU	340	6 497	54.0	1 439	...	97	...	...	122	37.3	1 922
111	YACIMIENTOS PETROLIFEROS FISCALES	ARG	290	6 344	...	4 842	...	104	...	...	34	...	...
112	INTERNATIONAL HARVESTER	USA	370	6 342	34.5	1 696	47.5	-397	6	-1.4	87	34.9	...
113	AKZO N.V.	NLD	280	6 264	65.8	1 140	...	-35	...	...	83	71.6	1 006
114	NIPPON MINING CO.	JPN	100	6 224	5.1	359	...	58	...	...	6	0.2	317
115	SUMITOMO METAL INDUSTRIES	JPN	332	6 207	...	1 137	...	221	...	...	30	...	2 410

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
116	MCDONNELL DOUGLAS CO.	USA	372	6 198	4.6	1 512	2.5	145	1	0.7	83	7.8	2 066
117	W.R GRACE AND CO.	USA	280	6 136	25.6	1 807	25.9	287	...	...	92	16.3	121
118	MINNESOTA MINING & MANUFACTURING CO	USA	380	6 079	41.5	3 295	33.5	678	...	...	87	40.3	...
119	SALZGITTER A.G.	DEU	332	6 031	76.3	564	...	-48	...	...	57	...	1 679
120	GRAND METROPOLITAN	GBR	200	6 008	16.2	2 988	...	278	...	...	127	15.9	213
121	BROWN BOVERI	CHE	360	6 003	...	...	...	...	...	...	105	...	2 293
122	PEPSICO	USA	200	5 975	22.3	1 429	...	274	...	...	111	27.0	...
123	TOA NENRYO KOGYO K.K.	JPN	290	5 842	...	751	...	162	...	...	4	...	...
124	MITSUBISHI ELECTRIC	JPN	350	5 816	...	948	...	110	...	...	48	...	1 128
125	METALLGESELLSCHAFT A.G.	DEU	109	5 762	57.0	390	...	19	...	...	27	...	...
126	KAWASAKI STEEL CORP.	JPN	332	5 713	...	1 217	...	271	...	...	34	...	20
127	ARMCO INC.	USA	340	5 711	16.4	2 959	8.8	265	53	20.0	60	19.5	...
128	CONTINENTAL GROUP, INC.	USA	265	5 657	29.8	1 420	...	225	...	...	58	35.4	192
129	CONSOLIDATED FOOD CO.	USA	200	5 643	25.4	884	87.9	140	123	88.0	85	26.0	...
130	VOLVO	SWE	371	5 628	75.1	671	...	9	...	...	64	26.7	2 754
131	THE COCA-COLA CO.	USA	208	5 621	45.6	2 075	35.8	422	...	...	41	52.4	...
132	HYUNDAI GROUP	KOR	370	5 540	...	5 847	...	97	...	...	126	...	...
133	GULF AND WESTERN INDUSTRIES	USA	340	5 522	20.5	1 695	...	255	...	...	18	...	...
134	ALLIED CORP.	USA	280	5 519	27.7	1 924	21.3	289	206	71.3	46	...	369
135	DEERE & CO.	USA	350	5 470	29.6	2 144	...	228	...	...	61	21.6	688
136	SPERRY	USA	357	5 427	39.3	2 337	...	313	...	...	92	...	...
137	KOBE STEEL, LTD.	JPN	332	5 412	...	712	...	125	...	...	...	...	1 000
138	ELECTROLUX GROUP	SWE	360	5 408	68.9	648	...	80	...	...	103	61.2	1 200
139	LOCKHEED AIRCRAFT CO.	USA	372	5 396	28.4	2 443	8.9	28	...	...	75	3.8	1 358
140	ALCAN ALUMINIUM LTD.	CAN	330	5 215e/	63.6	2 441l/	49.4	542	198	36.5	67	70.1	983
141	ALCOA	USA	330	5 148	14.6	2 934	19.4	470	...	...	44	...	...
142	COLGATE-PALMOLIVE	USA	280	5 130	61.4	1 274	...	173	...	...	48	54.8	...
143	THE COASTAL CORP.	USA	290	5 120	...	586	...	110	...	...	7	...	...
144	ALLIED LYONS PLC. m/	GBR	208	5 118	27.1	3 023	...	263	...	...	84	13.1	151
145	INTERNATIONAL PAPER	USA	260	5 043	24.9	2 829	...	314	...	...	46	23.3	411
146	GEORGIA PACIFIC CORP.	USA	260	5 016	...	2 047	...	244	...	...	44	...	...
147	RAYTHEON	USA	360	5 002	12.6	1 304	...	282	20	7.1	78	12.7	771
148	TRW INC.	USA	360	4 984	29.2	2 886	35.0	205	73	35.9	94	29.7	300
149	CHARBONNAGES DE FRANCE	FRA	121	4 953	...	...	...	-115	...	...	79	...	...
150	HONEYWELL, INC.	USA	357	4 925	29.8	1 904	35.1	293	114	38.7	97	...	...
151	SCHLUMBERGER LTD.	FRA	350	4 884	...	3 218	...	994	...	...	83	...	...
152	TOYO KOGYO	JPN	370	4 875	...	565	...	74	...	...	28	5.4	...
153	RALSTON PURINA	USA	200	4 873	25.1	1 132	14.4	163	...	...	70	22.2	...
154	UNION PACIFIC CORP.	USA	400	4 872	...	2 832	...	404	...	...	33	...	...
155	GENERAL MILLS, INC.	USA	200	4 852	11.4	1 145	15.1	197	6	2.9	71	10.3	...
156	FIRESTONE TIRE AND RUBBER	USA	300	4 850	34.0	1 343	49.7	-106	-34	32.0	93	47.3	...
157	JOHNSON & JOHNSON	USA	283	4 837	45.6	2 269	35.8	401	216	53.9	74	...	...
158	NIPPON ELECTRIC CO.	JPN	360	4 820	29.5	782	...	99	...	...	64	...	1 215
159	AMERICAN CAN CO.	USA	265	4 812	14.0	1 709	22.2	86	21	24.9	51	...	...
160	GREYHOUND CORP.	USA	200	4 782	...	849	...	118	...	...	52	...	...
161	THE SIGNAL COMPANIES, INC. n/	USA	371	4 782	16.3	1 493	...	191	27	14.2	63	...	705
162	DEGUSSA A.G.	DEU	333	4 758	13.5	421	...	37	...	...	20	25.1	2 047
163	SOLVAY & CIE S.A.	BEL	280	4 734	92.7	1 597	...	68	...	...	49	90.4	...
164	GEORGE WESTON HOLDINGS	GBR	200	4 706	...	650	...	102	...	...	...	...	...
165	GENERAL DYNAMICS	USA	372	4 645	...	...	...	195	...	...	83	...	...
166	FRIEDRICH FLICK GROUP	DEU	249	4 636	...	4 265	...	43	...	...	47	...	1 247
167	BORDEN, INC.	USA	200	4 596	16.4	1 227	23.1	318	54	17.0	38	...	...
168	THE BROKEN HILL PROPRIETARY	AUS	100	4 578	22.8	3 776	...	267	5	1.8	74	...	...
169	KUWAIT NATIONAL PETROLEUM	KWT	290	4 565	...	623	...	...	...	...	3	...	...
170	CHARTER CO.	USA	290	4 563	1.9	677	...	50	...	...	11	...	...
171	WEYERHAEUSER CO.	USA	240	4 536	33.1	2 836	8.7	278	33	11.8	46	10.5	1 140
172	TURKIYE PETROLLERI	TUR	290	4 516	...	149	...	115	...	...	10	...	...
173	VOEST-ALPINE	AUT	332	4 484	72.8	5 635	...	...	...	...	79	8.2	...
174	GUEST, KEEN AND NETTLEFOLDS	GBR	370	4 473	34.5	2 237	36.4	85	128	149.9	93	39.0	449
175	BARLOW RAND LTD.	ZAF	100	4 447	7.4	1 890	...	285	8	3.0	114	...	...

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
176	DALGETY	GBR	200	4 372	72.8	1 256	53.1	109o/	64	59.3	29	40.5	124
177	SANYO ELECTRIC CO.	JPN	360	4 367	59.7	1 031	...	144	...	...	21	...	...
178	BSN GERVAIS DANONE	FRA	200	4 315	32.6	717	...	78	20	25.7	48	33.6	...
179	TAIYO FISHERIES CO.	JPN	200	4 309	...	83	...	4	...	...	11	...	...
180	SONY CORP.	JPN	360	4 231	70.8	1 543	...	325	...	...	33	...	...
181	LITTON INDUSTRIES	USA	360	4 227	20.7	1 167	...	291	...	...	75	...	...
182	MITSUBISHI OIL CO.	JPN	290	4 203	...	98	...	29	...	...	4	...	...
183	HENKEL KG AA	DEU	280	4 197	43.1	...	...	...	...	...	34	44.8	605
184	ALUSUISSE	CHE	335	4 174	90.3	3 652h/	...	81	39	48.1	45	85.2	...
185	I C INDUSTRIES INC.	USA	400	4 142	8.6	1 278	...	121	...	...	61	44.4	...
186	THE LUCKY GROUP	KOR	280	4 140	...	369	...	23	...	...	43	...	765
187	CPC INTERNATIONAL	USA	200	4 120	66.4	1 107	...	197	91	46.3	41	76.7	31
188	BOWATER CORP. PLC.	GBR	260	4 094	48.9	1 241	...	198	...	...	35	42.4	634
189	TEXAS INSTRUMENTS INC.	USA	360	4 075	34.3	1 164	66.8	212	217	102.3	50	...	...
190	AMERICAN HOME PRODUCTS	USA	280	4 074	35.2	1 473	...	446	...	...	50	...	...
191	CBS INC.	USA	480	4 062	18.5	1 190	...	193	...	...	...	...	...
192	ZAMBIA INDUSTRIAL & MINING CORP LTD. p/	ZMB	100	4 048	...	2 278	...	309	...	...	125	...	...
193	USINOR STEEL CORP.	FRA	332	4 018	...	516	...	-297	...	...	34	...	1 478
194	DRESSER INDUSTRIES, INC.	USA	350	4 016	23.8	1 648	20.6	261	51	19.4	53	24.6	565
195	COURTAULDS, LTD.	GBR	230	3 978	26.5	760	...	-16	...	...	89	28.1	964
196	THOMAS TILLING PLC.	GBR	340	3 947	37.2	1 105	...	121	...	...	46	28.9	120
197	OWENS-ILLINOIS INC.	USA	265	3 905	22.8	1 327	23.7	149	32	21.6	59	26.4	71
198	BENDIX CORP.	USA	371	3 862	33.8	1 341	...	192	...	...	79	35.7	309
199	ENPETROL q/	ESP	290	3 846	...	958	...	22	...	...	6	...	...
200	DAIKYO OIL CO. LTD.	JPN	290	3 832	...	100	...	28	...	...	2	...	...
201	THE SAMSUNG GROUP	KOR	360	3 798	...	595	...	18	...	...	74	...	...
202	BMW	DEU	370	3 795	...	1 087	...	88	...	...	37	...	1 757
203	CONTROL DATA CORP. r/	USA	357	3 784	26.9	1 437	30.9	151	59	39.4	57	18.4	362
204	MITSUBISHI CHEMICAL INDUSTRIES LTD.	JPN	280	3 778	...	500	...	40	...	...	8	...	470
205	THORN EMI	GBR	360	3 770	...	1 816	...	322	55	17.1	125	19.5	353
206	UNITED BRANDS CO.	USA	200	3 763	25.3	564	...	31	...	...	50	75.4	...
207	REPUBLIC STEEL CORP.	USA	332	3 760	.6	1 508	1.2	51	4	7.6	41	.4	91
208	CHAMPION INTERNATIONAL	USA	240	3 753	13.4	1 753	...	147	...	...	41	19.5	...
209	REYNOLDS METALS CO.	USA	330	3 748	...	1 348	...	180	...	...	...	...	...
210	CEPSA	ESP	290	3 729	...	639	...	25	...	...	5	...	635
211	NATIONAL STEEL CORP.	USA	332	3 708	...	1 444	...	84	...	...	34	...	...
212	ARCHER-DANIELS-MIDLAND	USA	204	3 647	...	1 047	...	176	...	...	7	...	894
213	OMV A.G.	AUT	290	3 630	...	2 100	...	18	...	...	9	...	37
214	NESTE OY	FIN	290	3 586	...	153	...	30	...	...	5	...	464
215	HEINZ H.J. CO.	USA	200	3 569	39.9	987	40.3	168	49	29.1	42	39.8	...
216	NORSK HYDRO	NOR	280	3 539	83.4	748	...	76	...	...	15	30.4	...
217	ASAHI CHEMICAL INDUSTRY	JPN	285	3 519	1.4	748	...	78	...	...	13	...	426
218	DEUTCHE BABCOCK	DEU	150	3 500	52.8	435	...	18	...	...	31	21.3	...
219	ROCHE/SAPAC	CHE	283	3 495	96.5	4 690	...	138	...	...	44	78.0	...
220	FMC CORP.	USA	350	3 482	31.0	1 246	15.8	143	31	21.7	44	15.5	558
221	WARNER LAMBERT CO.	USA	283	3 479	45.8	1 487	38.5	193	...	...	56	...	...
222	KERR MCGEE CORP.	USA	290	3 478	2.4	1 342	...	182	...	...	11	...	...
223	AMERICAN CYANAMID CO.	USA	280	3 454	35.6	1 435	...	159	115	72.0	43	...	...
224	REED INTERNATIONAL LTD.	GBR	260	3 443	23.0	1 159	41.5	89	54	60.6	61	19.0	208
225	COCKERILL S.A.	BEL	332	3 410	...	...	...	-269	...	...	33	...	...
226	ITALSIDER s/	ITA	332	3 400	...	718	...	-87	...	...	528	...	...
227	RANKS HOVIS MCDOUGALL	GBR	200	3 387	11.7	1 100	11.0	38	8	20.2	54	8.6	22
228	TEXTRON INC.	USA	372	3 377	12.5	1 154	35.4	86	25	29.0	61	...	636
229	DANA CORP.	USA	371	3 362	25.7	2 019	33.6	106	58	54.7	35	...	...
230	CELANESE CORP.	USA	280	3 348	22.5	1 102	23.3	122	53	43.4	33	...	385
231	AMERICAN MOTORS CORP.	USA	370	3 342	...	731	...	-185	...	...	21	...	485
232	NCR CORP.	USA	357	3 322	54.9	1 704	45.2	255	...	...	68	41.2	427
233	BRITISH AEROSPACE	GBR	372	3 310	3.2	1 410	...	121	...	...	78	4.4	1 835
234	SAAB-SCANIA AB	SWE	371	3 308	54.7	1 069	38.3	223	86	38.6	39	18.8	1 222
235	STATSFORETAG GROUP	SWE	100	3 308	49.6	956	...	29	...	...	46	20.1	...

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
236	SUMITOMO CHEMICAL COMPANY, LTD.	JPN	280	3 306	...	521	...	47	...	...	9	...	310
237	PILLSBURY CO.	USA	200	3 302	10.6	751	...	120	10	8.7	60	...	...
238	ANHEUSER-BUSCH CO.	USA	200	3 295	...	1 038	...	172	...	...	18	...	...
239	MOTOROLA INC.	USA	360	3 284	24.1	1 256	23.9	192	41	21.6	75	...	...
240	KOREA OIL CORP.	KOR	290	3 257	...	109	...	-57	...	...	...	...	...
241	INLAND STEEL CO.	USA	332	3 256	...	2 958	...	30	...	...	35	...	...
242	EATON CORP.	USA	370	3 244	29.0	1 005	33.5	116	49	42.3	50	...	...
243	CARNATION CO.	USA	200	3 236	33.5	955	23.8	152	37	24.2	22	38.4	...
244	ISHIKAWAJIMA-HARIMA HEAVY INDUSTRIES	JPN	350	3 233	...	506	...	29	...	...	27	...	1 181
245	DUNLOP LTD	GBR	300	3 224	60.2	1 591	...	23	...	...	81	55.6	347
246	KAISER ALUMINUM AND CHEMICAL	USA	335	3 222	...	1 419	...	248	...	...	26	...	676
247	DIGITAL EQUIPMENT CO.	USA	357	3 198	39.2	1 652	...	343	...	...	63	31.0	...
248	BICC LTD.	GBR	360	3 175	37.8	834	...	95	51	53.9	50	36.2	566
249	KOMATSU LTD.	JPN	350	3 175	43.3	1 198	4.6	136	...	...	23	11.3	...
250	MCDERMOTT	USA	150	3 167	24.8	1 410	43.0	91	68	74.7	59	...	...
251	BRISTOL-MYERS INTERNATIONAL CO.	USA	284	3 158	33.0	1 380	36.7	271	105	38.8	35	...	...
252	P.P.G. INDUSTRIES INC.	USA	280	3 158	20.9	1 501	...	209	...	...	37	...	...
253	COMBUSTION ENGINEERING, INC.	USA	350	3 146	20.1	636	...	117	27	23.5	46	...	344
254	DIAMOND SHAMROCK CORP.	USA	280	3 145	10.1	1 329	13.5	213	23	10.6	14	18.6	153
255	UNIGATE PLC.	GBR	200	3 136	11.9	874	...	73	...	...	37	5.4	40
256	MASSEY-FERGUSON LTD.	CAN	352	3 132	93.0	353	...	-225	...	...	42	89.7	293
257	METALLURGIE HOBOKEN-OVERPELT N.V.	BEL	330	3 124	82.5	227	...	26	...	...	7	...	...
258	AEROSPATIALE	FRA	372	3 116	...	85	...	29	...	...	34	...	1 502
259	HEWLETT-PACKARD CO.	USA	380	3 099	50.8	1 547	30.7	269	118	43.9	57	...	831
260	CROWN ZELLERBACH CORP.	USA	260	3 084	21.4	1 189	...	97	70	72.2	31	21.3	...
261	B.F. GOODRICH CO.	USA	280	3 080	21.0	948	22.3	62	...	...	40	...	215
262	KAWASAKI HEAVY INDUSTRIES LTD.	JPN	370	3 074	...	513	...	13	...	...	26	...	1 464
263	EMERSON ELECTRIC CO.	USA	360	3 067	16.6	1 230	...	238	30	12.6	54	...	270
264	BOISE CASCADE CORP.	USA	240	3 033	10.0	1 281	21.1	149	77	52.0	32	.7	...
265	SAARBERGWERKE	DEU	100	3 032	...	2 240	...	...	...	...	33	...	...
266	PFIZER INC.	USA	283	3 029	56.8	1 156	...	254	185	72.8	41	58.3	...
267	STANDARD BRANDS INC.	USA	200	3 018	41.5	654	110.6	104	...	...	24	...	...
268	NORTON SIMON INC.	USA	200	3 013	24.9	996	36.8	92	81	93.8	26	...	...
269	BRIDGESTONE TIRE CO.	JPN	300	3 002	28.1	1 014	...	126	...	...	31	...	...
270	ISUZU MOTORS LTD.	JPN	371	3 001	...	412	...	20	...	...	22	...	512
271	AMAX	USA	330	2 979	21.3	2 720	35.6	470	126	26.7	20	...	357
272	KLOECKNER WERKE A.G.	DEU	332	2 972	78.6	...	...	16	...	...	32	...	...
273	INGERSOLL RAND	USA	350	2 971	37.3	1 176	...	160	...	...	47	...	703
274	ASEA GROUP	SWE	360	2 969	51.9	2 138	15.7	38	8	21.7	40	24.6	581
275	SKF	SWE	330	2 958	92.5t/	1 289	...	106	...	...	53	81.7	...
276	ESMARK INC.	USA	200	2 956	23.3	579	6.9	472	...	...	31	...	...
277	STEEL AUTHORITY OF INDIA	IND	332	2 938	.6	5 348h/	...	...	...	...	197	...	17
278	CSR LTD. u/	AUS	200	2 932	...	1 157	...	112	...	...	16	...	...
279	TELEDYNE INC.	USA	360	2 926	...	1 401	...	344	...	...	48	...	...
280	SANDOZ	CHE	283	2 924	94.4	1 979	...	121	...	...	35	72.3	...
281	SNOW BRAND MILK PRODUCTS	JPN	200	2 915	...	170	...	12	...	...	17	...	...
282	BURROUGHS CORP.	USA	357	2 902	43.7	2 125	26.5	82	22	26.2	57	37.0	...
283	BURLINGTON INDUSTRIES, INC.	USA	220	2 901	13.0	1 110	13.0	81	-3	...	65	15.4	203
284	NORANDA MINES LTD.	CAN	100	2 889	27.7	3 938	16.6	408	54	15.4	64	35.2	1 101
285	TIME INC.	USA	270	2 882	10.2	920	23.6	141	...	...	26	...	...
286	TORAY INDUSTRIES INC.	JPN	220	2 881	...	856	...	123	...	...	23	60.5	...
287	NORTHWEST INDUSTRIES	USA	332	2 876	...	959	...	155	...	...	44	...	...
288	THE BURMAH OIL CO. LTD.	GBR	290	2 864	54.3	1 535	...	196	86	44.1	28	35.7	191
289	CANADA PACKERS INC.	CAN	200	2 842	14.9	250	15.9	26	1	5.4	16	21.1	146
290	LEVI STRAUSS CO.	USA	230	2 841	33.5	832	...	224	...	...	48	...	...
291	TABACALERA S.A.	ESP	210	2 839	...	51	...	1 418	...	...	9	...	...
292	SOUTH AFRICAN IRON AND STEEL	ZAF	332	2 808	...	2 255	...	92	...	...	...	...	691
293	HAWKER-SIDDLEY GROUP	GBR	360	2 803	31.2	1 397	40.3	162	...	...	56	29.0	672
294	CAMPBELL SOUP CO.	USA	200	2 798	21.7	1 000	16.2	130	15	11.8	40	28.0	29
295	SINGER CO.	USA	360	2 787	43.4	427	64.5	38	...	...	71	...	...

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
296	BEECHAM GROUP PLC.	GBR	283	2 779	63.4	1 735	...	364	...	...	34	52.5	247v/
297	BOC GROUP PLC.	GBR	280	2 779	57.8	2 722	62.9	61	...	...	47	60.2	177
298	L.M. ERICCSON TELEPHONE CONSOLIDATED	SWE	360	2 779	39.0t/	687	...	49	...	...	66	57.6	1 113
299	ST. REGIS PAPER CO.	USA	260	2 772	15.8	1 339	21.0	171	34	20.0	30	17.2	...
300	FUJITSU	JPN	360	2 770	...	825	...	88	...	...	34	...	389
301	LUCAS INDUSTRIES PLC.	GBR	371	2 759	48.9	1 171	...	-80	...	...	79	24.1	546
302	DE BEERS CONSOLIDATED MINES	ZAF	100	2 753	...	3 714	...	1054	...	...	20	...	...
303	KUBOTA LTD.	JPN	352	2 742	...	1 132	...	72	...	...	20	...	360
304	MERCK & CO. INC.	USA	280	2 734	49.5	1 863	...	415	...	...	32	48.4	...
305	VALLOUREC	FRA	330	2 728	56.3	431	...	-15	...	...	30	...	614
306	MEAD CORP.	USA	260	2 707	5.3	860	5.7	129	6	4.4	25	...	...
307	TI GROUP PLC.	GBR	335	2 694	36.0	1 227	...	26	...	...	55	14.7	547
308	VIAG	DEU	105	2 689	...	2 949h/	...	69	...	...	26	10.8	...
309	AMERICAN STANDARD INC.	USA	320	2 674	...	636	...	157	...	...	47	...	...
310	BORG-WARNER CORP.	USA	350	2 673	30.8	1 154	19.9	126	3	2.2	55	...	...
311	IMETAL GROUP S.A.	FRA	100	2 645	...	1 041	...	76	...	...	...	...	...
312	MARTIN MARIETTA CORP.	USA	372	2 619	...	1 183	...	188	...	...	35	...	...
313	L'AIR LIQUIDE GROUP	FRA	280	2 611	...	687	...	134	...	...	25	...	...
314	CADBURY SCHWEPPES	GBR	200	2 603	38.2	949	...	143	...	...	35	32.6	...
315	KIMBERLY-CLARK CORP.	USA	260	2 600	38.2	1 311	...	182	77	42.5	31	48.7	...
316	NIPPONDENSO	JPN	371	2 594	9.5	965	...	121	...	...	25	...	225
317	AVON PRODUCTS INC.	USA	280	2 569	49.0	921	75.6	241	205	84.7	34	55.4	...
318	NABISCO	USA	200	2 569	28.2	672	74.9	128	58	45.4	37	34.0	...
319	ELI LILLY AND CO.	USA	283	2 559	39.9	1 735	33.2	335	84	24.9	28	37.4	355
320	AVIONS MARCEL DASSAULT-BREGUET	FRA	360	2 547	...	126	...	76	...	...	16	...	1 076
321	OLIVETTI S.P.A.	ITA	357	2 546	65.2	3 105	...	121	...	...	53	47.2	...
322	KIDDE INC.	USA	350	2 539	10.1	1 467	15.9	231	20	8.5	53	...	136
323	MITSUI TOATSU CHEMICALS	JPN	280	2 537	...	177	...	58	...	...	10	...	...
324	SACILOR	FRA	332	2 532	...	...	...	-459	...	...	24	...	...
325	METAL BOX PLC.	GBR	341	2 504	41.3	1 058	31.0	13	17	129.8	54	44.9	163
326	HERCULES INC.	USA	280	2 485	26.1	1 010	26.9	114	29	25.4	23	17.9	282
327	PENNZOIL CO.	USA	290	2 483	...	1 023	...	308	...	...	10	...	...
328	PHILIPPINE NATIONAL OIL	PHL	290	2 473	...	323	...	43	...	...	...	...	...
329	FURUKAWA ELECTRIC CO.	JPN	360	2 468	...	260	...	26	...	...	5i/	...	177
330	OERLIKON-BUEHRLE HOLDING A.G.	CHE	350	2 454	...	1 956	...	117	...	...	37	53.6	...
331	CONSOLIDATED GOLD FIELD	GBR	100	2 440	...	1 209	...	209	...	...	101	89.8	91
332	MACMILLAN BLOEDEL LTD.	CAN	260	2 436	79.7	9 213	34.0	113	17	15.0	25	19.1	1 379
333	MATSUSHITA ELECTRIC WORK	JPN	360	2 429	...	656	...	98	...	...	...	...	...
334	SULZER BROTHERS	CHE	350	2 414	...	1 829	...	17	...	...	35	...	...
335	QUAKER OATS	USA	200	2 405	37.7	633	41.1	96	...	...	31	37.3	...
336	TOSCO CORP.	USA	290	2 387	...	236	...	46	...	...	3	...	...
337	ROTHMANS INTERNATIONAL	GBR	210	2 385	...	426	...	36	...	...	24	67.1	212
338	SHARP	JPN	360	2 369	...	737	...	77	...	...	13	...	...
339	INTERCO INC.	USA	310	2 368	...	914	...	124	...	...	56	74.5	...
340	UNION INTERNATIONAL	GBR	200	2 367	...	174	...	-15	...	...	...	...	...
341	KOOR INDUSTRIES	ISR	360	2 362	...	364	...	66	...	...	28	...	410
342	CANADA DEVELOPMENT CORP.	CAN	280	2 359	45.9	1 319	...	189	...	...	34	40.1	228
343	GILLETTE CO.	USA	340	2 315	60.5	717	37.1	124	60	48.6	34	72.7	...
344	OWENS-CORNING FIBERGLASS	USA	320	2 313	6.6	760	...	54	...	...	24	...	...
345	UNIROYAL	USA	300	2 299	35.0	494	57.3	-8	44	...	34	47.4	...
346	CODELCO CHILE	CHL	100	2 281	...	1 487	...	401	...	...	...	...	...
347	ALFA-ROMEO S.P.A. s/	ITA	371	2 281	...	613	...	-88	...	...	46	...	...
348	ABC	USA	480	2 280	...	870	...	146	...	...	13	...	...
349	UBE INDUSTRIES	JPN	280	2 269	...	221	...	19	...	...	15	...	...
350	MCGRAW EDISON	USA	369	2 264	16.8	544	...	51	...	...	35	...	259
351	KENNECOTT CORP.	USA	330	2 255	...	1 616	41.9	192	...	...	35	...	191
352	GENERAL TIRE AND RUBBER	USA	300	2 244	43.9	...	...	41	...	...	39	...	...
353	WHIRLPOOL	USA	360	2 243	...	723	...	102	...	...	...	...	...
354	JOHNS-MANVILLE CORP.	USA	320	2 227	...	926	...	81	...	...	31	...	...
355	REVLON	USA	280	2 203	36.9	956	51.6	192	91	47.6	37	...	...

Annex Table II.31 (continued)

Rank	Company	Home Country	Sector	Sales a/ Total ($mil)	Sales a/ Foreign (Percent)	Net Assets b/ Total ($mil)	Net Assets b/ Foreign (Percent)	Net Earnings c/ Total ($mil)	Net Earnings c/ Foreign ($mil)	Net Earnings c/ Foreign (Percent)	Employment Total (000)	Employment Foreign (Percent)	Exports ($mil) d/
356	GOULD INC.	USA	360	2 200	18.4	1 368	17.4	157	57	36.3	35	15.1	...
357	SHOWA DENKO K.K. i/	JPN	280	2 190	...	613	...	117	...	...	6	...	105
358	OGDEN CORP.	USA	330	2 187	3.5	405	53.4	58	25	42.1	31	...	...
359	ULTRAMAR PLC.	GBR	290	2 186	88.0	458	99.0	172	169	98.0	...	...	...
360	COLT INDUSTRIES INC.	USA	350	2 166	8.8	684	...	98	...	...	31	...	...
361	LAFARGE COPPEE	FRA	320	2 157	48.2	622	...	89	...	...	27	45.6	...
362	KOC HOLDING	TUR	370	2 153	...	...	...	18	...	...	...	...	...
363	KELLOGG CO.	USA	200	2 151	38.1	736	...	184	55	29.7	21	...	...
364	INCO LTD.	CAN	109	2 150	84.9	2 162	...	250	...	...	34	44.7	1 165
365	PETROLEOS DE PORTUGAL	PRT	290	2 147	...	2 384	...	33	...	...	7	...	2
366	NL INDUSTRIES	USA	290	2 144	30.6	903	56.7	168	57	33.8	22	...	...
367	SUMITOMO ELECTRIC INDUSTRIES LTD.	JPN	360	2 119	...	304	...	34	...	...	19	...	350
368	SCOTT PAPER CO.	USA	260	2 083	56.9	1 121	84.4	134	72	53.9	21	...	...
369	FRUEHAUF CORP.	USA	370	2 082	28.3	1 320	30.5	32	...	...	29	22.3	63
370	ASAHI GLASS	JPN	320	2 079	...	811	...	103	...	...	9	...	...
371	KLOECKNER-HUMBOLDT-DEUTZ i/	DEU	350	2 077	63.4	1 687	...	20	...	...	24	...	1 318
372	WILLIAMS CO.	USA	280	2 073	...	966	3.0	139	-8	...	7	...	444
373	L'OREAL S.A.	FRA	284	2 072	10.0	...	...	92	...	...	25	...	...
374	WARNER COMMUNICATIONS	USA	360	2 059	18.3	747	27.6	137	...	...	12	28.3	270
375	WHITE CONSOLIDATED INDUSTRIES	USA	360	2 057	5.0	442	...	57	...	...	28	...	264
376	UNITED BISCUITS	GBR	209	2 048	33.1	620	31.9	87	...	21.2	41	24.4	55
377	ALLIS CHALMERS	USA	350	2 042	23.4	664	26.8	48	15	32.4	29	...	196
378	ABBOT LABORATORIES	USA	283	2 038	34.3	1 027	...	214	...	...	31	35.7	48
379	GRUP INDUSTRIAL ALFA	MEX	340	2 035	...	1 394	...	146	...	...	49	...	...
380	BABCOCK INTERNATIONAL	GBR	344	2 031	48.3	554	...	14	...	...	38	49.7	341
381	DAI NIPPON PRINTING	JPN	270	2 018	...	1 104	...	94	...	...	34	...	...
382	PENN CENTRAL	USA	350	2 014	...	1 081	...	94	...	...	17	...	85

Footnotes

a/ Net Sales figures, excluding non-operating revenues, are consolidated for the enterprise and its subsidiaries, unless otherwise indicated. Consolidated sales of subsidiaries outside the home base comprise "foreign" sales.

b/ Assets figures refer to consolidated net assets - also known as net worth or shareholders equity (including retained earnings) the total of which excludes intangible assets and deferred charge assets - for the enterprise and its subsidiaries, unless otherwise indicated.

c/ Net Earnings after tax, unless otherwise indicated.

d/ Exports from company's home base, unless otherwise indicated.

e/ Figure includes revenue & operating sales.

f/ Foreign means outside E.C.

g/ Foreign employment in Europe only.

h/ Total Assets.

i/ Parent company only.

j/ Income before appropriations and taxes.

k/ Fiscal 1981.

l/ Net fixed assets.

m/ Allied Lyons - former Allied Breweries; J. LYONS & Co. acquired in September 1978.

n/ Restated figure to reflect the accounts of Ampex Corporation (merged 15 January 1981).

o/ Earnings before interest and tax.

p/ Fiscal Year 1979.

q/ Belongs to Banco Industrial de Cataluña.

r/ Data includes financial services activity of commercial credit company.

s/ From the IRI.

t/ Includes exports.

u/ CSR acts as an agent for the Queensland Government in the marketing of Australia's sugar production.

v/ Exports include exports to overseas subsidiary and associated companies.

Sector Codes

100 - Metal mining
105 - Bauxite and other aluminum ores
109 - Miscellaneous ores
111 - Anthracite mining
121 - Bituminous coal
150 - General building contractors
200 - Food and allied products
204 - Grain mill products
208 - Beverages
209 - Miscellaneous foods
210 - Tobacco
220 - Textile mill products
230 - Apparel and other textiles
240 - Lumber and wood products
249 - Miscellaneous products
260 - Paper and allied products
265 - Paperboard containers
270 - Printing and publishing
280 - Chemicals and allied products
283 - Pharmaceuticals
284 - Toilet goods
285 - Paints and allied products
290 - Petroleum and coal products
300 - Rubber and plastic products
310 - Leather and leather products
320 - Stone, clay and glass products
330 - Primary metal industries
332 - Iron and steel
333 - Primary non-ferrous metals
335 - Non-ferrous rolling and drawing
340 - Fabricated metals products
341 - Metal cans and containers
344 - Fabricated structural metal products
350 - Machinery, except electrical
352 - Farm machinery
353 - Construction and related machinery
357 - Office and computing machines
360 - Electric and electronic equipment
369 - Miscellaneous electrical equipment & supplies
370 - Transportation equipment
371 - Motor vehicles and equipment
372 - Aerospace
380 - Instruments and related products
386 - Photographic equipment
400 - Railroad transportation
480 - Communication

Country Codes

ARG - Argentina
AUS - Australia
AUT - Austria
BEL - Belgium
BRA - Brazil
CAN - Canada
CHL - Chile
FIN - Finland
FRA - France
DEU - Germany, Federal Republic of
IND - India
ISR - Israel
ITA - Italy
JPN - Japan
KOR - Korea, Republic of
KWT - Kuwait
MEX - Mexico
NLD - Netherlands
NOR - Norway
PHL - Philippines
PRT - Portugal
ZAF - South Africa
ESP - Spain
SWE - Sweden
CHE - Switzerland
TUR - Turkey
GBR - United Kingdom
USA - United States
VEN - Venezuela
ZMB - Zambia

Annex Table II.32. Aggregate data on the sales, assets, income and employment of the world's largest industrial corporations, 1971, 1976 and 1980

A. Distribution of sales by home country

Year	Home country	Total sales			Foreign sales		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	625630	1782.4	351	107004	527.1	203
	Canada	5419	903.1	6	...	...	3
	France	23150	1361.7	17	4822	602.7	8
	Germany, Fed. Rep.	48892	1955.6	25	13986	874.1	16
	Japan	56409	1253.5	45	2770	251.8	11
	United Kingdom	52022	1406.0	37	9396	408.5	23
	United States	380053	2159.3	176	59732	481.7	124
	Other W. Europe b/	49642	1601.3	31	14514	853.7	17
	Other Developed c/	3002	600.4	5	...	...	1
	Developing d/	7041	782.3	9	...	...	...
1976	Total	1431470	3807.1	376	345589	1339.4	258
	Canada	16043	2005.3	8	...	...	4
	France	83891	3813.2	22	24304	1869.5	13
	Germany, Fed. Rep.	117518	4700.7	25	37508	2206.3	17
	Japan	126003	2800.0	45	10103	631.4	16
	United Kingdom	150628	3765.7	40	34983	1060.0	33
	United States	755361	4291.8	176	187465	1266.6	148
	Other W. Europe b/	122892	3321.4	37	45277	1886.5	24
	Other Developed c/	18824	3137.3	6	...	...	2
	Developing d/	40310	2371.1	17	...	...	1
1980	Total	2738632	7131.8	382	713991	2810.9	254
	Canada	29562	3695.2	8	14324	1790.5	8
	France	177542	7719.2	23	54058	4158.3	13
	Germany, Fed. Rep.	228665	9146.6	25	88837	4675.6	19
	Japan	262416	5583.3	47	27858	2321.5	12
	United Kingdom	303984	7599.6	40	96445	3013.9	32
	United States	1342340	7499.1	177	337177	2325.3	145
	Other W. Europe b/	262400	6905.2	38	93899	4268.1	22
	Other Developed c/	19880	3313.3	6	...	...	2
	Developing d/	111843	6213.5	18	...	...	1

B. Distribution of sales by sector

Year	Sector	Total sales			Foreign sales		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	625630	1782.4	351	107004	527.1	203
	Mining	14577	971.8	15	...	...	4
	Construction	5920	845.7	7	...	...	3
	Food & Allied	55034	1448.2	38	10107	374.3	27
	Tobacco	15219	2536.5	6	...	...	3
	Textiles	4826	1206.5	4	...	...	2
	Lumber & Wood	5521	1380.2	4	...	...	3
	Paper & Allied	17318	1154.5	15	3194	290.3	11
	Chemicals	69489	1447.6	48	19498	573.4	34
	Petroleum	112279	2495.0	45	9466	525.8	18
	Rubber	10882	1813.6	6	...	...	4
	Metal Fabrication	62005	1476.3	42	5958	350.4	17
	Machinery	44772	1492.4	30	12086	464.8	26
	Electronics	83424	1940.0	43	13177	549.0	24
	Transportation	113570	2912.0	39	22937	1042.5	22
	Other	10794	1199.3	9	1978	395.6	5
1976	Total	1431470	3807.1	376	345589	1339.4	258
	Mining	38347	2130.3	18	5651	941.8	6
	Construction	14772	1846.5	8	...	...	3
	Food & Allied	105530	2705.8	39	22203	716.2	31
	Tobacco	32054	4579.1	7	14428	2404.6	6
	Textiles	7728	1932.0	4	...	...	4
	Lumber & Wood	10284	2571.0	4	...	...	3
	Paper & Allied	32196	2299.7	14	9255	661.0	14
	Chemicals	154064	3020.8	51	57113	1359.8	42

Annex Table II.32 (continued)

B. Distribution of sales by sector (continued)

Year	Sector	Total sales			Foreign sales		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1976	Petroleum	374250	7637.7	49	69490	2895.4	24
	Rubber	21136	3019.4	7	...	...	4
	Metal Fabrication	133060	2892.6	46	23679	763.8	31
	Machinery	96355	3011.0	32	30221	1079.3	28
	Electronics	166619	3702.6	45	35983	1199.4	30
	Transportation	220664	5253.9	42	59912	2218.9	27
	Other	24411	2441.1	10	4419	883.8	5
1980	Total	2738632	7131.8	382	713991	2810.9	254
	Mining	78464	4359.1	18	14573	1821.6	8
	Construction	28408	3551.0	8	8481	1696.2	5
	Food & Allied	194831	4870.7	39	42198	1361.2	31
	Tobacco	59126	8446.5	7	...	...	4
	Textiles	12601	3150.2	4	...	...	3
	Lumber & Wood	15958	3989.5	4	...	...	3
	Paper & Allied	50469	3604.9	14	11769	980.7	12
	Chemicals	273009	5353.1	51	111342	2589.3	43
	Petroleum	871986	16452.5	52	192211	8008.7	24
	Rubber	31390	4484.2	7	9926	1654.3	6
	Metal Fabrication	233938	4977.4	47	50517	1804.1	28
	Machinery	170149	5156.0	33	48583	1943.3	25
	Electronics	289779	6299.5	46	77787	2592.9	30
	Transportation	371526	8845.8	42	108924	4189.3	26
	Other	56998	5699.8	10	11355	1892.5	6

C. Distribution of net assets by home country

Year	Home country	Total net assets			Foreign net assets		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	315753	965.6	327	36069	298.0	121
	Canada	4220	703.3	6	...	...	1
	France	7874	656.1	12	...	...	2
	Germany, Fed. Rep.	14654	771.2	19	56	6.2	9
	Japan	25362	589.8	43	2924	324.8	9
	United Kingdom	42822	1189.5	36	32145	324.6	99
	United States	192880	1108.5	174	...	...	1
	Other W. Europe b/	23012	852.2	27	...	...	...
	Other Developed c/	2378	594.5	4	...	...	...
	Developing d/	2551	425.1	6			
1976	Total	537759	1485.5	362	63865	420.1	152
	Canada	8697	1242.4	7	...	...	2
	France	21386	1125.5	19	...	...	3
	Germany, Fed. Rep.	52393	2381.5	22	...	...	1
	Japan	39381	895.0	44	348	38.6	9
	United Kingdom	65042	1667.7	39	6594	549.5	12
	United States	288282	1628.7	177	52442	433.4	121
	Other W. Europe b/	43770	1287.3	34	...	...	3
	Other Developed c/	4992	998.4	5	...	...	1
	Developing d/	13816	921.0	15	...	...	...
1980	Total	908662	2462.4	369	89925	795.7	113
	Canada	14397	1799.6	8	...	...	4
	France	39058	1952.9	20	...	...	3
	Germany, Fed. Rep.	58543	2787.7	21	...	...	1
	Japan	80245	1744.4	46	...	...	2
	United Kingdom	135997	3399.9	40	18394	1532.8	12
	United States	449733	2540.8	177	63796	716.8	89
	Other W. Europe b/	77817	2161.5	36	...	...	2
	Other Developed c/	13156	2192.6	6	...	...	...
	Developing d/	39716	2647.7	15	...	...	...

D. Distribution of net assets by sector

Year	Sector	Total net assets			Foreign net assets		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	315753	965.6	327	36069	298.0	121
	Mining	13380	892.0	15	...	...	1
	Construction	2440	406.6	6	...	...	3
	Food & Allied	16476	457.6	36	1929	120.5	16
	Tobacco	4018	803.6	5	...	...	3
	Textiles	2020	505.0	4	...	...	2
	Lumber & Wood	3945	986.2	4	...	...	2
	Paper & Allied	8808	587.2	15	1042	130.2	8
	Chemicals	35900	797.7	45	3641	182.0	20
	Petroleum	82577	1920.3	43	12252	1113.8	11
	Rubber	4897	816.1	6	...	...	4
	Metal Fabrication	30936	859.3	36	1586	176.2	9
	Machinery	23601	813.8	29	4072	271.4	15
	Electronics	38451	985.9	39	2158	196.1	11
	Transportation	40979	1170.8	35	4199	381.7	11
	Other	7325	813.8	9	978	195.6	5
1976	Total	537759	1485.5	362	63865	420.1	152
	Mining	22336	1489.0	15	...	...	2
	Construction	4457	636.7	7	...	...	3
	Food & Allied	28013	718.2	39	4081	177.4	23
	Tobacco	10637	1519.5	7	...	...	3
	Textiles	2671	667.7	4	...	...	2
	Lumber & Wood	6654	1663.5	4	...	...	3
	Paper & Allied	13822	987.2	14	2479	206.5	12
	Chemicals	86985	1775.2	49	8961	407.3	22
	Petroleum	129890	2706.0	48	10230	852.5	12
	Rubber	7533	1076.1	7	2668	533.6	5
	Metal Fabrication	51846	1296.1	40	3351	335.1	10
	Machinery	45652	1426.6	32	10285	571.3	18
	Electronics	55331	1229.5	45	5948	371.7	16
	Transportation	58246	1420.6	41	7986	499.1	16
	Other	13686	1368.6	10	1913	382.6	5
1980	Total	908662	2462.4	369	89925	795.7	113
	Mining	42644	2508.4	17	...	...	2
	Construction	7730	966.2	8	...	...	2
	Food & Allied	61423	1535.5	40	6672	351.1	19
	Tobacco	16961	2423.0	7	...	...	1
	Textiles	3558	889.5	4	...	...	1
	Lumber & Wood	10135	2533.7	4	...	...	2
	Paper & Allied	19376	1384.0	14	1819	303.1	6
	Chemicals	107573	2195.3	49	14762	820.1	18
	Petroleum	253913	5078.2	50	17362	2170.2	8
	Rubber	8824	1470.6	6	...	...	3
	Metal Fabrication	83821	1949.3	43	4874	443.0	11
	Machinery	74239	2249.6	33	13213	943.7	14
	Electronics	94550	2148.8	44	9767	813.9	12
	Transportation	102775	2569.3	40	6470	588.1	11
	Other	21140	2114.0	10	...	...	3

E. Distribution of net earnings by home country

Year	Home country	Total net earnings			Net foreign earnings		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	29337	90.5	324	4686	41.8	112
	Canada	256	42.6	6	...	...	1
	France	641	42.7	15	...	...	1
	Germany, Fed. Rep.	812	42.7	19	...	...	1
	Japan	1381	31.3	44	304	23.3	13
	United Kingdom	3098	86.0	36	4252	46.2	92
	United States	21321	127.6	167	...	...	3

E. Distribution of net earnings by home country (continued)

Year	Home country	Total net earnings			Net foreign earnings		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Other W. Europe b/	962	41.8	23	...	...	1
	Other Developed c/	278	55.6	5	...	...	...
	Developing d/	588	65.3	9	...	...	...
1976	Total	58161	167.1	348	9935	66.2	150
	Canada	639	79.8	8	...	...	2
	France	1701	100.0	17	...	...	4
	Germany, Fed. Rep.	2628	119.4	22	...	...	1
	Japan	2465	58.6	42	...	...	1
	United Kingdom	6332	175.8	36	694	53.3	13
	United States	38820	220.5	176	8157	67.9	120
	Other W. Europe b/	2401	88.9	27	571	81.5	7
	Other Developed c/	543	108.6	5	...	...	2
	Developing d/	2632	175.4	15	...	...	...
1980	Total	112049	323.8	346	19118	159.3	120
	Canada	2027	289.5	7	378	75.6	5
	France	5400	317.6	17	...	...	2
	Germany, Fed. Rep.	3056	138.9	22	...	...	2
	Japan	6065	137.8	44	...	...	1
	United Kingdom	14283	432.8	33	1148	88.3	13
	United States	67984	395.2	172	16045	180.2	89
	Other W. Europe b/	4788	159.6	30	917	152.8	6
	Other Developed c/	1876	312.6	6	...	...	2
	Developing d/	6570	438.0	15	...	...	...

F. Distribution of net earnings by sector

Year	Sector	Total net earnings			Foreign net earnings		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Total	29337	90.5	324	4686	41.8	112
	Mining	776	59.6	13	...	...	2
	Construction	171	24.4	7	...	...	1
	Food & Allied	2067	55.8	37	290	17.0	17
	Tobacco	798	133.0	6	...	...	3
	Textiles	177	44.2	4	...	...	...
	Lumber & Wood	202	67.3	3	...	...	3
	Paper & Allied	544	36.2	15	67	8.3	8
	Chemicals	3338	75.8	44	599	31.5	19
	Petroleum	7671	182.6	42	1919	127.9	15
	Rubber	503	83.8	6	...	...	4
	Metal Fabrication	1416	42.9	33	106	15.1	7
	Machinery	2361	81.4	29	842	84.2	10
	Electronics	4371	112.0	39	198	22.0	9
	Transportation	4120	111.3	37	241	26.7	9
	Other	822	91.3	9	179	35.8	5
1976	Total	58161	167.1	348	9935	66.2	150
	Mining	1285	80.3	16	...	...	3
	Construction	534	66.7	8	...	...	3
	Food & Allied	4009	105.5	38	816	35.4	23
	Tobacco	1202	171.7	7	...	...	2
	Textiles	335	83.7	4	...	...	1
	Lumber & Wood	564	141.0	4	...	...	3
	Paper & Allied	1404	100.2	14	199	18.0	11
	Chemicals	7129	151.6	47	1643	68.4	24
	Petroleum	16591	368.6	45	1832	101.7	18
	Rubber	687	98.1	7	60	20.0	3
	Metal Fabrication	2541	77.0	33	268	22.3	12
	Machinery	6002	187.5	32	2041	157.0	13

F. Distribution of net earnings by sector (continued)

Year	Sector	Total net earnings			Foreign net earnings		
		Total (US$M)	Mean (US$M)	Cases (No.)	Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1976	Electronics	5297	120.3	44	1070	82.3	13
	Transportation	8740	218.5	40	1371	85.6	16
	Other	1841	204.5	9	282	56.4	5
1980	Total	112049	323.8	346	19118	159.3	120
	Mining	3814	238.3	16	...	...	4
	Construction	808	101.0	8	...	...	2
	Food & Allied	7229	185.3	39	1144	63.5	18
	Tobacco	3837	548.1	7	...	...	1
	Textiles	428	142.6	3	...	...	...
	Lumber & Wood	617	154.2	4	...	...	2
	Paper & Allied	2232	159.4	14	241	34.4	7
	Chemicals	11361	236.6	48	2218	138.6	16
	Petroleum	45480	928.1	49	7606	422.5	18
	Rubber	493	98.6	5	...	...	2
	Metal Fabrication	6077	164.2	37	559	55.9	10
	Machinery	10237	330.2	31	2601	216.7	12
	Electronics	10267	233.3	44	2073	138.2	15
	Transportation	5581	174.4	32	1176	117.6	10
	Other	3588	398.6	9	...	...	3

G. Distribution of employment by home country

Year	Home country	Total employment			Foreign sales		
		Total (Units)	Mean (Units)	Cases (No.)	Total a/ (Units)	Mean a/ (Units)	Cases (No.)
1971	Total	19627756	61529.0	319	2922898	23958.1	122
	Canada	174225	34845.0	5	...	...	3
	France	1046989	65436.8	16	...	...	4
	Germany, Fed. Rep.	2246559	89862.3	25	269719	22476.5	12
	Japan	1406695	31970.3	44	27163	2469.3	11
	United Kingdom	3035359	86724.5	35	789266	26308.8	30
	United States	9229175	59929.7	154	1020626	21715.4	47
	Other W. Europe b/	2135738	71191.2	30	661216	44081.0	15
	Other Developed c/	104650	26162.5	4	...	...	...
	Developing d/	248366	41394.3	6	...	...	...
1976	Total	23394982	63746.5	367	4644423	27002.4	172
	Canada	341998	48856.8	7	149111	21301.5	7
	France	1811190	82326.8	22	301988	30198.8	10
	Germany, Fed. Rep.	2335317	93412.6	25	409180	29227.1	14
	Japan	1572471	35737.9	44	31180	3118.0	10
	United Kingdom	3196312	84113.4	38	865844	27930.4	31
	United States	10527913	60505.2	174	1694455	22898.0	74
	Other W. Europe b/	2759038	74568.5	37	1192665	45871.7	26
	Other Developed c/	163400	32680.0	5	...	...	...
	Developing d/	687343	45822.8	15	...	...	...
1980	Total	25496908	69097.3	369	5777074	31917.5	181
	Canada	403184	50398.0	8	170264	21283.0	8
	France	1878718	85396.2	22	344920	34492.0	10
	Germany, Fed. Rep.	2545036	101801.4	25	607666	37979.1	16
	Japan	1688046	37512.1	45	60563	10093.8	6
	United Kingdom	3152498	85202.6	37	1002765	29493.0	34
	United States	11407145	65183.6	175	2413157	29428.7	82
	Other W. Europe b/	3255112	85660.8	38	1177739	47109.5	25
	Other Developed c/	251892	50378.4	5	...	...	...
	Developing d/	915277	65376.9	14	...	...	...

Annex Table II.32 (continued)

H. Distribution of employment by sector

Year	Sector	Total employment			Foreign employment		
		Total (Units)	Mean (Units)	Cases (No.)	Total a/ (Units)	Mean a/ (Units)	Cases (No.)
1971	Total	19627756	61529.0	319	2922898	23958.1	122
	Mining	927213	66229.5	14	118332	23666.4	5
	Construction	248991	49798.2	5	...	...	1
	Food & Allied	1516317	45949.0	33	115388	8242.0	14
	Tobacco	253049	50609.8	5	...	...	3
	Textiles	289291	72322.7	4	...	...	3
	Lumber & Wood	111937	55968.5	2	...	...	1
	Paper & Allied	569686	37979.0	15	80665	13444.1	6
	Chemicals	2314891	50323.7	46	494444	26023.3	19
	Petroleum	1404805	34263.5	41	261272	23752.0	11
	Rubber	328545	82136.2	4	...	...	3
	Metal Fabrication	2230601	57194.8	39	135792	11316.0	12
	Machinery	1605035	55346.0	29	173971	14497.5	12
	Electronics	3657231	93775.1	39	613884	43848.8	14
	Transportation	3859616	107211.5	36	485153	30322.0	16
	All Others	310548	44364.0	7	...	...	2
1976	Total	23394982	63746.5	367	4644423	27002.4	172
	Mining	1187200	65955.5	18	146212	20887.4	7
	Construction	328680	41085.0	8	...	...	3
	Food & Allied	1960313	50264.4	39	526483	22890.5	23
	Tobacco	413621	59088.7	7	...	...	3
	Textiles	120379	40126.3	3	...	...	1
	Lumber & Wood	174750	43687.5	4	...	...	2
	Paper & Allied	550124	39294.5	14	127981	12798.1	10
	Chemicals	2603515	52070.3	50	687205	24543.0	28
	Petroleum	1670275	36310.3	46	242902	18684.7	13
	Rubber	588384	84054.8	7	...	...	3
	Metal Fabrication	2544407	59172.2	43	314666	16561.3	19
	Machinery	1951470	60983.4	32	372861	24857.4	15
	Electronics	4134233	91871.8	45	946971	47348.5	20
	Transportation	4698085	111859.1	42	762819	34673.5	22
	Other	469546	52171.7	9	...	...	3
1980	Total	25496908	69097.3	369	5777074	31917.5	181
	Mining	1248678	78042.3	16	193334	27619.1	7
	Construction	391727	48965.8	8	...	...	3
	Food & Allied	2115873	55680.8	38	565885	23578.5	24
	Tobacco	520834	74404.8	7	256766	51353.2	5
	Textiles	225102	56275.5	4	...	...	3
	Lumber & Wood	166124	41531.0	4	...	...	3
	Paper & Allied	554658	39618.4	14	104621	11624.5	9
	Chemicals	2667019	53340.3	50	832546	27751.5	30
	Petroleum	1997949	39958.9	50	363286	25949.0	14
	Rubber	552302	78900.2	7	190763	38152.6	5
	Metal Fabrication	2985402	67850.0	44	370302	23143.8	16
	Machinery	2179568	66047.5	33	417669	26104.3	16
	Electronics	4422462	100510.5	44	1102511	58026.8	19
	Transportation	4906189	119663.1	41	1036331	47105.9	22
	Other	563021	62557.8	9	175319	35063.8	5

I. Distribution of exports by home country

Year	Home country	Total exports		
		Total a/	Mean a/	Cases
		(US$M)	(US$M)	(No.)
1971	Total	37944	271.0	140
	Canada	...	...	2
	France	2707	386.7	7
	Germany, Fed. Rep.	11416	634.2	18
	Japan	9077	283.6	32
	United Kingdom	5305	160.7	33
	United States	5847	177.1	33

I. Distribution of exports by home country (continued)

Year	Home country	Total exports		
		Total a/ (US$M)	Mean a/ (US$M)	Cases (No.)
1971	Other W. Europe b/	3264	296.7	11
	Other Developed c/	...	...	1
	Developing d/	...	...	3
1976	Total	120870	694.6	174
	Canada	...	...	2
	France	10664	1184.8	9
	Germany, Fed. Rep.	29715	1650.8	18
	Japan	23844	681.2	35
	United Kingdom	11488	328.2	35
	United States	20451	409.0	50
	Other W. Europe b/	12684	792.7	16
	Other Developed c/	...	...	3
	Developing d/	11284	1880.6	6
1980	Total	227215	1344.4	169
	Canada	6704	838.0	8
	France	25061	2506.1	10
	Germany, Fed. Rep.	54416	3401.0	16
	Japan	28990	1317.7	22
	United Kingdom	23686	717.7	33
	United States	43522	725.3	60
	Other W. Europe b/	24849	1656.6	15
	Other Developed c/	691	691.0	1
	Developing d/	19296	4824.0	4

J. Distribution of exports by sector

Year	Sector	Total exports		
		Total (US$M)	Mean (US$M)	Cases (No.)
1971	Total	37944	271.0	140
	Mining	127	42.3	3
	Construction	397	132.3	3
	Food & Allied	829	63.7	13
	Tobacco	303	60.6	5
	Textiles	640	320.0	2
	Lumber & Wood	605	201.6	3
	Paper & Allied	148	37.0	4
	Chemicals	6535	311.1	21
	Petroleum	941	104.5	9
	Rubber	275	137.5	2
	Metal Fabrication	5435	301.9	18
	Machinery	3568	274.4	13
	Electronics	5566	265.0	21
	Transportation	11552	550.0	21
	Other	1023	511.5	2
1976	Total	120870	694.6	174
	Mining	2759	459.8	6
	Construction	1190	396.6	3
	Food & Allied	1790	149.1	12
	Tobacco	857	142.8	6
	Textiles	1351	450.3	3
	Lumber & Wood	1306	435.3	3
	Paper & Allied	847	169.4	5
	Chemicals	21161	705.3	30
	Petroleum	12304	1025.3	12
	Rubber	591	295.5	2
	Metal Fabrication	16853	766.0	22
	Machinery	10175	678.3	15
	Electronics	20223	697.3	29
	Transportation	29248	1169.9	25
	Other	215	215.0	1

J. Distribution of exports by sector (continued)

Year	Sector	Total exports		
		Total (US$M)	Mean (US$M)	Cases (No.)
1980	Total	227215	1344.4	169
	Mining	2919	583.8	5
	Construction	1552	1552.0	1
	Food & Allied	1674	186.0	9
	Tobacco	2096	419.2	5
	Textiles	1167	583.5	2
	Lumber & Wood	2387	1193.5	2
	Paper & Allied	2895	482.5	6
	Chemicals	38931	1297.7	30
	Petroleum	26193	2619.3	10
	Rubber	347	347.0	1
	Metal Fabrication	22004	916.8	24
	Machinery	18819	1045.5	18
	Electronics	41373	1532.3	27
	Transportation	59931	2305.0	26
	Other	4927	1642.3	3

a/ The calculated mean and sum is omitted for all cases less than 5 valid observations.

b/ Austria, Belgium, Denmark, Finland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

c/ Australia, South Africa and Israel.

d/ Argentina, Brazil, Chile, India, Republic of Korea, Kuwait, Mexico, Philippines, Turkey, Venezuela and Zambia.

Annex Table IV.1. Selected developing countries: growth of manufacturing industry, 1970-1980

Country/ territory a/	Manufacturing GDP (million of 1975 dollars) 1970	1980	Index of manufacturing GDP (1970 = 100) 1980	Share of manufacturing GDP in total GDP (percentage) 1980
Brazil	20 716	50 830	245	29.2
Mexico	13 551	24 347	180	23.3
Argentina	17 079	22 126	130	30.9
India	10 797	16 538	153	17.4
Rep. of Korea	2 391	10 008	419	33.8
Venezuela	4 138	5 861	142	19.5
Philippines	2 849	5 637	198	26.1
Indonesia	1 397	4 476	320	10.3
Peru	3 011	4 078	135	24.3
Egypt	1 946	3 730	192	17.7
Colombia	2 050	3 709	181	21.4
Hong Kong	1 760	3 299	187	23.8
Chile	2 751	3 224	117	21.4
Malaysia	1 045	3 081	295	21.6
Nigeria	1 118	2 701	242	5.1
Singapore	851	2 322	273	17.1
Algeria	793	1 453	183	9.0
Ivory Coast	353	908	257	16.4
Kenya	238	486	204	13.3
Total of 19 countries	88 834	168 814	190	
Developing market economies	119 596	224 728	188	

Sources: United Nations, Handbook of World Development Statistics, 1982. Projections and Perspective Studies Branch, Office for Development Research and Policy Analysis, Department of International Economic and Social Affairs, (PPS/QIR/5/1982), October 1982. Series of National Accounts Data as Transformed by the DRPA Macroeconomic Table Processing System, Office for Development Research and Policy Analysis of the United Nations Secretariat.

a/ Countries are ranked in order of magnitude of the 1980 GDP in manufacturing.

Annex Table IV.2. Value of manufactured exports by selected developing countries and territories, 1970-1980

Country or territory a/	Value of manufactured exports (US$M) 1970	1981	Index of manufactured exports (1970=100) 1981	Share of manufactured exports in total exports (percentage) 1981	Country's share of the manufactured exports of all developing market economies (percentage) 1978
Rep. of Korea	640	19 192	2 999	90.5	17.4
Hong Kong	1 954	13 840	708	96.7	13.7
Singapore	431	10 410	2 415	49.7	7.2
Brazil	369	9 232	2 502	39.6	6.2
India	1 056	4 106 b/	389 b/	58.7 b/	5.7
Malaysia	439	3 593 c/	818 c/	27.8 c/	2.2
Argentina	249	1 996 c/	802 c/	24.9 c/	2.4
Mexico	482	1 980 d/	411 d/	31.4 d/	2.6
Chile	1 012	1 519 e/	150 e/	61.7 e/	0.4
Philippines	81	1 356 c/	1 674 c/	23.6 c/	1.1
Peru	320	1 330 c/	416 c/	40.7 c/	0.2
Indonesia	20	1 115	5 575	5.0	0.3
Venezuela	52	73 c/	1 405 c/	3.8 c/	0.2
Colomiba	63	808	1 283	27.3	0.8
Egypt	207	408	197	12.6	0.8
Ivory Coast	30	250	833	9.9	0.2
Kenya	26	159 b/	612 b/	12.1 b/	0.2
Algeria	68	67 b/	99 b/	0.4 b/	0.0
Nigeria	55	64 d/	116 d/	0.4 d/	0.0
Total of 19 countries	7 554	...	...	...	61.6

Sources: United Nations Statistical Office, Trade Data Base"COMTRADE", (mimeo); United Nations Conference on Trade and Development, Handbook of International Trade and Development Statistics, 1981 Supplement, (United Nations publication, Sales No. E/F.82.II.D.11). Table 4.1, pp. 106-128.

a/ Countries are ranked in order of the magnitude of the value of manufactured exports in 1981 or the latest year.

b/ 1979.

c/ 1980.

d/ 1978.

e/ 1978, and includes metallic copper manufactures.

Annex Table IV.3. United States and Japan: Regional distribution of foreign direct investment in manufacturing industry in developing countries, 1970s

(Percentage)

	United States			Japan	
	Stock		Flow	Flow	
	1976	1980	1976-1980	1951-1971	1972-1980
Africa	2.6	2.4	2.1	3.3	0.9
Asia	13.4	14.2	15.4	52.5	53.9
Latin America	82.3	82.0	81.4	43.7	31.4
Middle East	1.6	1.3	1.0	0.5	13.8
Total	100.0	100.0	100.0	100.0	100.0

Sources: United States, Department of Commerce, US Direct Investment Abroad, 1977 (United States Government Printing Office, Washington, D.C. 1981), Table I.W.16, p. 59; Obie Whichard, "US Direct Investment Abroad in 1980", Survey of Current Business, August 1980, Table 12;

Export-Import Bank of Japan, Kaigai Toshi Kenkyushoho (Bulletin of the Research Institute for Overseas Investment), various issues.

Annex Table IV.4. United States foreign direct investment in manufacturing, 1977

($ millions)

Sector	All countries	All developing countries	Latin America	Africa Middle East	Asia and Pacific	Developing countries as % world Total	Sectoral composition in developing countries (%) Latin America	Asia and Pasific	Regional distribution in developing countries (%) Latin America	Asia and Pacific
Manufacturing	62 019	11 565	9 614	435	1 496	18.6	100.0	100.0	83.3	13.0
Food & kindred products	5 571	1 286	1 114	23	149	23.1	11.6	10.0	86.0	11.6
Grain mill and bakery products	1 090	154	142	-	-	14.1	1.5	-	82.2	-
Beverages	1 215	280	229	-	-	23.0	2.4	-	81.8	-
Other	3 266	852	745	-	-	26.1	7.7	-	87.2	-
Chemicals and allied products	11 864	874	2 285	95	494	24.2	23.8	33.0	79.5	17.2
Industrial chemical & synthetics	4 864	1 008	820	15	172	20.7	8.5	11.5	81.3	17.1
Drugs	2 795	730	531	-	-	26.1	5.5	-	72.7	-
Soap, cleaners, toilet articles	2 099	602	492	22	88	28.6	5.1	5.9	81.7	14.6
Agricultural chemicals	680	290	224	3	63	42.6	2.3	4.2	77.2	21.7
Other	1 426	244	217	-	-	17.1	2.3	-	88.9	-
Primary and fabricated metals	4 626	1 115	920	96	99	24.1	9.6	6.6	82.5	8.9
Primary metal industries	1 754	622	510	-	-	35.5	5.3	-	82.0	-
Ferrous	628	138	132	1	6	22.0	1.4	0.4	95.7	4.3
Non-ferrous	1 126	483	373	-	-	42.8	3.9	-	78.3	-
Fabricated metal products	2 872	493	410	-	-	17.2	4.3	-	83.2	-
Machinery, except electrical	11 223	1 034	942	16	76	9.2	9.8	5.1	91.1	7.4
Farm and garden machinery & equipment	697	85	76	5	4	12.2	0.8	0.8	89.4	4.7
Construction & related machinery	1 780	323	298	-1	26	18.1	3.1	1.7	92.3	8.0
Office and computing machines	6 447	306	-	-	-	4.7	-	-	-	-
Other	2 299	320	-	-	-	13.9	-	-	-	-
Electric and electronic equipment	5 494	1 273	846	82	345	23.2	8.8	23.1	66.5	27.1
Household appliances	855	92	85	0	6	10.8	0.9	0.4	92.4	6.5
Radio, TV and communication equqipment	2 016	400	326	-	-	19.8	3.4	-	81.5	-
Electronic components and accessories	1 112	311	74	8	229	28.0	0.8	15.3	23.8	73.6
Other	1 511	470	360	-	-	31.1	3.7	-	76.6	-
Transportation equipment	9 321	1 127	1 065	-	-	12.1	11.1	-	94.5	-
Motor vehicles and equipment	9 032	1 092	-	-	-	12.1	-	-	-	-
Other	289	35	-	2	-	12.1	-	-	-	-
Other manufacturing	13 921	2 836	2 445	-	-	20.4	25.4	-	86.1	-
Tobacco manufactures	937	-	-	1	-	-	-	-	-	-
Textile products and apparel	1 257	284	223	10	51	22.6	2.3	3.4	78.5	18.0
Lumber, wood, furniture & fixtures	706	70	42	0	28	9.9	0.4	1.9	60.0	40.0
Paper and allied products	2 770	649	609	16	24	23.4	6.3	1.6	93.8	3.7
Printing and publishing	408	56	51	0	5	13.7	0.5	0.3	91.1	8.9
Rubber products	2 058	712	563	55	94	34.6	5.9	6.3	79.1	13.2
Miscellaneous plastics products	475	114	105	-	-	24.0	1.1	-	92.1	-
Glass products	576	114	106	0	8	19.8	1.1	0.5	93.0	7.0
Stone, clay, cement and concrete	1 049	247	224	5	18	23.5	2.3	1.2	90.7	7.3
Instruments and related products	2 608	226	214	2	9	8.7	2.2	0.6	94.7	4.0
Other	1 078	-	-	3	44	-	-	2.9	-	-

Source: United States Department of Commerce, op. cit., Table I.W.4, p. 47.

Annex Table IV.5. Data on United States non-bank manufacturing affiliates in developing countries, 1977

(Dollars)

	Net property, plant and equipment per employee			Total sales per employee			Sales per $ of net property, plant and equipment		
	All developing countries	Latin America	Asia and the Pacific	All developing countries	Latin America	Asia and the Pacific	All developing countries	Latin America	Asia and the Pacific
All manufacturing	9 626	10 553	6 288	29 499	32 900	20 233	3.06	3.12	3.22
Food	5 925	6 434	2 599	30 271	33 121	22 347	5.11	5.15	6.21
Grain mill and bakery	9 335	8 617	...	68 668	65 388	...	7.36	7.59	...
Beverages	9 582	11 131	...	31 139	37 139	...	3.26	3.34	...
Other	4 524	5 052	...	23 123	25 363	...	5.11	5.02	...
Chemicals	18 094	17 320	19 928	42 104	41 935	40 681	2.33	2.24	2.04
Industrial	29 722	28 650	30 847	49 603	47 066	61 555	1.67	1.64	2.00
Drugs	5 222	6 168	...	25 864	27 581	19 089	4.95	4.47	...
Soap, etc.	7 103	7 104	5 539	47 288	45 496	...	6.66	6.40	...
Agricultural	47 816	36 516	...	62 395	70 072	...	1.30	1.92	...
Other	14 043	13 553	...	49 504	45 519	...	3.53	3.3	...
Metals	19 938	18 169	...	35 004	36 939	21 556	1.76	2.03	...
Primary	33 190	31 676	...	45 236	51 115	22 566	1.36	1.61	...
Ferrous	22 083	22 512	...	33 789	34 575	...	1.53	1.54	...
Non-ferrous	38 147	37 652	...	50 373	61 984	...	1.32	1.65	...
Fabricated	7 287	7 157	8 600	25 217	25 357	20 425	3.46	3.54	2.38
Non-electrical machinery	9 094	10 435	4 734	29 007	31 600	10 575	3.19	3.03	4.13
Farm and garden	5 476	4 292	...	36 182	...	...	6.61	...	...
Construction	10 138	10 692	5 711	28 002	29 567	...	2.76	2.77	...
Office and computing	11 981	...	...	34 022	...	...	2.84	...	...
Other	7 577	...	...	24 842	...	...	3.28	...	...
Electric and electronic equipment	3 398	4 123	2 361	18 342	20 657	15 503	5.40	5.01	6.57
Household	3 383	3 811	2 452	23 339	26 734	...	6.90	7.02	6.00
Radio, television, communications	3 461	3 627	2 277	20 179	24 160	...	5.83	6.66	...
Electronic components	1 807	1 579	1 873	14 499	10 538	16 044	8.02	6.67	8.57
Other	7 577	6 401	4 828	22 290	23 869	...	3.52	3.73	...
Transport	8 830	9 136	6 185	40 603	42 118	27 976	4.60	4.61	4.52
Motor vehicles	8 913	...	...	41 116	...	...	4.61	4.61	...
Other	5 745	...	...	21 211	...	...	3.69	2.63	...
Others	8 708	10 037	...	23 130	26 433	13 382	2.66	2.63	...
Tobacco	...	...	...	18 175	...	...	...	...	...
Textile and apparel	5 212	6 523	3 017	14 193	19 514	...	2.72	2.99	...
Lumber, wood, furniture	5 157	6 685	...	17 480	15 405	...	3.39	2.30	...
Paper and allied	16 790	18 033	...	33 338	34 285	...	1.99	1.90	...
Printing and publishing	2 632	1 986	...	21 362	21 850	...	8.12	11.0	...
Rubber	11 159	11 750	...	34 370	36 799	...	3.08	3.13	...
Miscellaneous plastic	8 598	8 958	7 380	31 706	32 647	...	3.69	3.64	...
Glass	7 272	8 273	3 396	17 083	19 304	8 487	2.35	2.33	2.50
Stone, clay, cement	19 513	18 129	...	27 101	29 897	...	1.39	1.65	...
Instruments	5 175	5 709	...	22 675	23 690	...	4.38	4.15	...
Other	...	...	1 824	14 446	...	...	...	...	...

Source: From data in United States Department of Commerce op. cit. Table Nos. 2.A.12, p. 117; 2.F.5, p. 138; and 2.G.4, p 149.

Annex Table IV.6. Sales by market of firms with Japanese foreign investment in manufacturing industry, selected developing countries in Asia, 1973

(Percentage)

Host country	Host country market	Japan	Third country market
Hong Kong	29.0	0.4	69.9
Republic of Korea	52.4	34.4	13.3
Singapore	62.5	4.9	32.2
Malaysia	87.3	7.8	4.8
Thailand	93.9	0.6	5.5
Indonesia	96.0	3.9	0.1

Source: Makoto Sakurai, "Japanese Direct Foreign Investment: Studies on its Growth in the 1970s" (New Haven; Yale University, Economic Growth Centre, Discussion Paper No. 397, February 1982, Table V, P. 32.

Annex Table IV.7. Republic of Korea: manufactured exports by foreign firms by industrial group, 1974-1978

	1974 ($million) a/	Per cent of total	1978 ($million) a/	Per cent of total
Food products	21.2	2.1	154.6	5.5
Textiles and wearing apparel	81.5	8.0	298.4	10.6
Leather and footwear	5.2	0.5	50.3	1.8
Chemicals and allied products	120.4	11.9	525.4	18.7
Petroleum refined products	146.6	14.5	100.5	3.6
Plastic products	5.4	0.5	56.6	2.0
Primary and fabricated metals	22.9	2.3	56.7	2.0
Machinery, except electrical	20.6	2.0	47.0	1.7
Electrical machinery	345.5	34.1	887.2	31.6
Transport equipment	1.3	0.1	54.0	1.9
Other equipment	9.4	0.9	27.7	1.0
Sub-total	831.7	82.2	2394.0	85.2
Masan Free Export Zone	180.2	17.8	416.4	14.8
Manufacturing total	1011.9	100.0	2810.4	100.0

Source: Bohn-Yong Koo, "Status and Changing Forms of Foreign Investment in Korea", Paris: OECD Development Centre (mimeo) 1982, Appendix 2.

a/ Data in Korean won have been converted into dollars at the conversion rate of 400.43 and 400.00 to $1.00 in 1974 and 1978 respectively.

Annex Table IV.8. Singapore: selected exports by industrial group, 1980

	($ million)	Per cent of total
Food, beverages and tocacco	1 012	5.2
Textiles and clothing	793	4.1
Chemicals	1 375	7.1
Petroleum products	4 809	24.8
Rubber and rubber products	1 540	7.9
Non-electrical machinery	1 158	6.0
Electrical machinery	3 121	16.1
Transport equipment	827	4.3
All exports	19 375	100.0

Source: United Nations Centre on Transnational Corporations, based on United Nations, International Trade Statistics Yearbook 1980, (United Nations publication, Sales No. E/F.81.XVII.13,), Volume I, p. 860.

Table Annex IV.9. Transnational corporations in United States foreign trade, 1977

(Billions of dollars)

	Trading partners	Imports	Share of TNC-generated imports %	Share of total imports %	Exports	Share of TNC-generated exports %	Share of total exports %	Total trade (exports+ imports)	Share of TNC-generated trade %	Share of total trade %
A.	Arm's length									
	US parents and non-affiliates	45.2	35.3	28.7	61.1	48.5	50.4	106.3	41.9	38.1
	Other US persons and US affiliates abroad	8.9	6.9	5.6	8.4	6.7	6.9	17.3	6.8	6.2
	Foreign affiliates in US and non-affiliates abroad	12.7	9.9	8.1	12.7	10.1	10.5	25.4	10.0	9.1
	Total	66.8	52.1	42.4	82.2	65.3	67.8	149.0	58.7	53.4
B.	Intra firm trade									
	US parents and their affiliates	32.6	25.5	20.7	32.4	25.7	26.7	65.0	25.6	23.3
	Foreign affilates in US and their parents abroad	28.7	22.4	18.2	11.3	9.0	9.3	40.0	15.7	14.4
	Total	61.3	47.9	38.9	43.7	34.7	36.0	105.0	41.3	37.7
C.	Total TNC-generated trade a/ (A+B)	128.1	100.0	81.3	125.9	100.0	103.8	254.0	100.0	91.9
D.	Total US trade a/	157.5		100.0	121.2		100.0	278.7		100.0

Sources: United States Department of Commerce op. cit, Ned G. Howenstine "Selected Data on the Operations of U.S. Affiliates of Foreign Companies, 1978", Survey of Current Business, May 1981.

a/ Since the data were obtained and compiled using different methodologies, the individual figures are not strictly comparable. In particular, the estimate of total TNC-generated exports exceeds total recorded United States exports.

Annex Table IV.10. Share of intra-firm exports in the total exports from their home countries of 329 large industrial corporations, a/ 1977 by industrial classification

(Percentage)

Sector	Share
High research intensive industries b/	
Aerospace	1.8
Office equipment (including computers)	91.3
Petroleum	51.0
Measurement, scientific and photographic equipment	58.2
Electronics and electrical applicances	36.5
Chemicals and pharmaceuticals	35.0
Sub-Total	34.5
Medium Research Intensive Industries b/	
Industrial and farm equipment	52.6
Shipbuilding, railroad and transportation equipment	0.1
Rubber	...
Motor vehicles (including components)	62.4
Metal manufacturing and products	12.8
Sub-total	36.9
Low Research Intensive Industries b/	
Building materials	8.7
Tobacco	0.5
Beverages	20.3
Food	9.2
Paper and wood products	9.5
Textiles, apparel, leather goods	12.8
Publishing and printing	5.4
Other manufacturing	5.9
Sub-total	9.5
All sectors	32.8

Source: J.H. Dunning and R.D. Pearce, The World Largest Enterprises, (Farnborough Gower, 1981), p. 132.

a/ These 329 firms accounted for 49 per cent of the sales of the full sample of 866 largest enterprises.

b/ The degree of research intensity was calculated on the basis of the proportion of engineers and scientists in employment in each sector (Dunning and Pearce, op cit., p.10).

Annex Table IV.11. United States imports shipped by affiliates to United States parents, by country of affiliate and by industry of affiliate, 1977

($ million)

Country	All industries	Mining	Petroleum	Manufacturing								Trade	Finance	Other industries
				Total	Food and kindred products	Chemical and allied product	Primary and fabric. metals	Machinery except electrical	Electrical equipment	Transport equipment	Other manuf.			
All countries	32 639	1 010	13 794	15 672	453	689	483	1 249	2 563	8 755	1 480	1 389	...	...
Per cent	100.0	3.1	42.3	48.0	1.4	2.1	1.5	3.8	7.8	26.8	4.5	4.3	...	...
Developed	15.912	432	1 944	12 447	...	587	295	1 108	401	8 574	...	1 005	-	83
Per cent	100.0	2.7	12.2	78.2	...	3.7	1.8	7.0	2.5	53.9	...	6.3	-	0.5
Developing	16 727 a/	578	11 849	3 225	...	103	188	141	2 162	181	...	385	...	...
Per cent	100.0	3.5	70.8	19.3	...	0.6	1.1	0.8	12.9	1.1	...	2.3	...	...
OPEC	7 978	-	7 891	...	4	1	...	2	5	-	...	11	-	...
Per cent	100.0	-	98.9	...	0.1	-	...	-	0.1	-	...	0.1	-	...
Selected countries														
Argentina	10	-	-	9	-	1	-	3	-	1	3	-	-	-
Per cent	100.0	-	-	90.0	-	10.0	-	30.0	-	10.0	30.0	-	-	-
Brazil	315	...	1	241	...	...	...	10	...	53	...	40	-	...
Per cent	100.0	...	0.3	76.5	...	...	...	3.2	...	16.8	...	12.7	-	...
Mexico	612	31	1	575	8	...	...	18	...	118	...	4	-	2
Per cent	100.0	5.1	0.2	94.0	1.3	...	...	2.9	...	19.3	...	0.6	-	0.3
Hong Kong	1 171	-	...	338	-	-	...	...	...	-	...	63	-	...
Per cent	100.0	-	...	19.8	-	-	...	...	...	-	...	3.7	-	...
Korea, Rep. of	...	-	...	154	-	-	-	...	142	-	...	-	-	1
Per cent	...	-	-	-	-	-	-	-	-	-	-	-	-	-
Singapore	733	-	-	...	...	-	2	56	517	...	5	...	-	-
Per cent	100.0	-	-	...	...	-	0.3	7.6	70.5	...	0.7	...	-	-
Total selected countries b/	3 380	31	2	1 317	8	1	2	87	659	172	8	107	-	3
Per cent	100.0	0.9	0.1	39.0	0.2	-	0.1	2.6	19.5	5.1	0.2	3.2	-	0.1

Source: United States Department of Commerce, op. cit., p. 160.

a/ Some data for developing countries were derived by subtracting developed countries from the total for all countries. Hence the data shown may be greater than the acutal data.

b/ Some data are not available (...) or negligible (-) hence the total for selected countries in the corresponding sector will be understated.

Annex Table IV.12. Receipts for technology by United States parents from all affiliates, in relation to direct investment income, by industry, 1977

($ millions)

	All industries	Mining	Petroleum	Manufacturing								Trade	Banking	Finance a/	Other industries
				Total	Food products	Chemical products	Fabricated metals	Machinery (excl. elect.)	Electric & electronic	Transport equipment	Other manufactures				
All countries (Receipts)	4 857	38	461	2 907	159	493	148	1 039	327	252	487	512	188	107	644
All countries (Income)	19 673	504	5 331	6 655	690	1 206	412	1 662	569	881	1 235	2 041	1 819	2 220	1 102
Receipts as % of income	24.7	7.5	8.6	43.7	23.0	40.9	35.9	62.5	57.5	28.6	39.4	25.1	10.3	4.8	58.4
Developed countries (Receipts)	4 012	19	204	2 674	130	439	123	1 021	274	237	448	449	111	89	467
Developed countries (Income)	11 888	432	2 073	5 428	513	866	266	1 611	365	860	947	1 556	587	1 187	625
Receipts as % of income	33.7	4.4	9.8	49.3	25.3	50.7	46.2	63.4	75.1	27.6	47.3	28.9	18.9	7.5	74.7
Developing countries (Receipts)	773	19	257	234	29	54	25	18	53	16	39	63	78	17	17.7
Developing countries (Income)	7 685	72	3 173	1 227	177	340	146	51	204	21	288	485	1 232	1 033	463
Receipts as % of income	10.1	26.4	8.1	19.1	16.4	15.9	17.1	35.3	26.0	76.2	13.5	13.0	6.3	1.6	38.2
Latin America (Receipts)	353	6	44	134	16	35	20	9	17	13	24	25	43	13	88
Latin America (Income)	3 712	92	380	931	144	232	126	49	112	17	250	334	925	885	165
Receipts as % of income	9.5	6.5	11.6	14.4	11.1	15.1	15.9	18.4	15.2	76.5	9.6	7.5	4.6	1.5	53.3
Other developing countries (Receipts)	420	13	213	100	13	19	5	9	36	3	15	38	35	4	89
Other developing countries (Income)	3 973	...	2 793	296	33	108	20	...	92	4	38	151	307	148	375
Receipts as % of income	10.6	...	7.6	33.8	39.4	17.6	25.0	...	39.1	75.0	39.5	25.2	11.4	2.7	23.7

Source: United Nations Centre on Transnational Corporations, based on United States Department of Commerce, op. cit. Table I.Z.5, p. 99 and Table I.Y.4., p. 84.

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